SUPREME COURT OF THE UNITED STATES

OCTOBER TERM, 1956

No. 11

UNITED STATES GYPSUM COMPANY, APPELLANT,

vs.

NATIONAL GYPSUM COMPANY, ET AL.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

VOL. II

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JUDD & DETWEILER (INC.), PRINTERS, WASHINGTON, D. C., JULY 18, 1956

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[fol. 1006] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three-Judge Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

Reporter's Transcript of Prehearing Conference of June 9, 1953

Court Room, United States Court of Appeals,
United States Court House,
Washington, D. C.
Tuesday, June 9, 1953.

The above-entitled cause came on for prehearing conference on petitions of National Gypsum Company, Certain-Teed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, at 10:00 a. m., pursuant to notice, before Honorable Harold M. Stephens, Honorable Finis J. Garrett, and Honorable William P. Cole, Jr., sitting as the District Court of the United States for the District of Columbia.

APPEARANCES:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., and Lawrence Gochberg, Esq., Trial Attorneys, on behalf of the United States of America.
[fol. 1007] Cranston Spray, Esq., Robert Keck, Esq., and Hugh Lynch, Jr., Esq., on behalf of United States Gypsum Company.

Seymour Krieger, Esq., Samuel I. Rosenman, Esq., and Elmer E. Finck, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., Herbert W. Hirsh, Esq., and C. Roger Nelson, Esq., on behalf of Certain-Teed Products Corporation.

Albert E. Hallett, Esq., on behalf of The Celotex Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. De Witt, Esq., on behalf of Newark Plaster Company.

[fol. 1008] COLLOQUY BETWEEN COURT AND COUNSEL ON PREHEARING CONFERENCE

Chief Judge Stephens: This is a prehearing conference in Civil Action No. 8017 on the actions on petitions filed by the National Gypsum Company, Newark Plaster Company, Ebsary Gypsum Company, and Certain-Teed Products Corporation against the United States Gypsum Company.

Are counsel for the various petitioners all present? Is each of the petitioners represented?

Mr. Rosenman: National is represented, sir.

Mr. Krieger: Yes, sir.

Chief Judge Stephens: Will you introduce yourselves, gentlemen.

Mr. Krieger: My name is Seymour Krieger. I am Washington counsel for National Gypsum Company.

Chief Judge Stephens: Is Mr. Finck here?

Mr. Finck: Yes, I am here, Your Honor.

Mr. DeWitt: My name is DeWitt. I represent the Newark Plaster Company.

Chief Judge Stephens: You represent Newark.

Mr. Rippey: My name is Rippey. I represent the Ebsary Gypsum Company.

Mr. Miller: My name is Miller. I represent Certain-Teed.

Chief Judge Stephens: Mr. Lynch, you are here for United States Gypsum Company?

Mr. Lynch: Yes, sir.

[fol. 1009] Chief Judge Stephens: Mr. Spray also?

Mr. Spray: Yes, sir, and Mr. Keck.

Mr. Hallett: My name is Hallett of Dallstream, Schiff, Stern and Hardin, and I represent the Celotex Company. And if there will be time, I would like to explain our situation.

Chief Judge Stephens: Celotex has not filed a petition, has it?

Mr. Hallett: No.

Chief Judge Stephens: We will hear from you later. I just wanted to find out whether you had filed a petition.

Mr. Hallett: It will only take a minute. No, we did not, and I will explain why.

Chief Judge Stephens. Is there anyone else?

Mr. Nelson: C. Roger Nelson, Your Honor. I appear as local counsel for Certain-Teed Products, associated with Mr. Miller.

Chief Judge Stephens: This conference has been called for preliminary purposes, a prehearing conference, to find out what the issues are and to hear the petitioners with reference to their apparent desire for preliminary injunction pending the action to hear what the theories of the case are and the thories of the defense, and to make such arrangements as seem suitable for bringing the case on for hearing.

We will hear first from counsel for the National Gypsum Company.

The United States is represented also, Mr. Knuff?

[fol. 1010] Mr. Knuff: Yes, Your Honor. I am here representing the United States, and Mr. Gorman and Mr. Gochberg will assist me.

Chief Judge Stephens: Very well.

Mr. Krieger: I would like to present and move the admission of Samuel Rosenman, member of the Bar of New York, to speak on behalf of National Gypsum.

Chief Judge Stephens: He will be admitted.

You may proceed, Mr. Rosenman.

Mr. Rosenman: Yes, sir.

We have filed this petition, may it please the Court for the purpose of implementing the decree of this court entered in 1951, with which at least two of Your Honors are thoroughly familiar. It is our contention, sir, that under this decree, this court should enjoin the defendant, the U. S. Gypsum Company, from prosecuting a certain suit which is pending against other defendants, including my client.

The suit which the United States Gypsum Company has brought against my client is now pending in the Northern

District of Iowa. We have filed this petition with Your Honors to enjoin the prosecution of that suit, on the ground that it is in disregard of the decree of this court and of the opinions of the Supreme Court of the United States which have declared the licenses under which this suit is brought in Iowa to be illegal, null and void; and it is our contention that under the terms of that opinion and under the specific terms of the decree of this court the defendant U.S. Gyp-[fol. 1011] sum Company is barred from prosecuting that suit. It is barred not only because of the holding of this court and of the Supreme Court of the United States that these patent license agreements were illegal, null and void, but because of the misuse of the patents, a misuse which this court in its decree has condemned. The suit for royalties in Iowa is a continuation of the misuse of the patents under our contentions, and we believe is a violation of what was intended by the decree of this Court in holding that the licenses themselves were null and void.

We have brought this petition, sirs, in two claims. One concerns solely a question of law which I have just stated, and if Your Honors agree with our contention under Claim No. 1 of our petition, there would be no need for going into Claim No. 2.

Claim No. 2 is based upon a misuse of the patents and upon a contention that the conduct of U.S. Gypsum Company has precluded it from bringing any action for royalties. Under Claim No. 2 there will be questions of fact, perhaps. Under Claim No. 1 we urge that there are no questions of fact, but solely questions of law.

Chief Judge Stephens: What is the nature of Claim 1?

Mr. Rosenman: Claim 1, sir, is that the decree of this court is being violated as a matter of law by reason of the fact that the decree of this court held that these patent licenses were null and void and had been misused, and therefore, that the defendant Gypsum Company is barred from bringing any action to enforce these licenses in other [fol. 1012] courts of the country.

It has brought a number of actions, one in New York, one in Iowa, and one in New Jersey.

Chief Judge Stephens: That, I think will involve no

questions of act because there will be no dispute about the fact of these cases having been filed?

Mr. Rosenman: Having been filed; and there will be no dispute about the decree.

Chief Judge Stephens: And do you have a third claim?

Mr. Rosenman: The second claim.

Chief Judge Stephens: Is there a third?

Mr. Rosenman: No, sir. The second claim is set out on page 9 of our petition.

Chief Judge Stephens: We have all read this petition. We also have read the attached exhibits. Tell me, what are the theories of the five counts of the Gypsum Company suit against National?

Mr. Rosenman: So far as we have been able to determine, sir, and we have only the complaint to go by, the first four counts depend upon alleged contracts between U.S. Gypsum Company and National Gypsum Company. Counts 1 and 2 refer to the original patent license agreement between U.S. Gypsum and National Gypsum, and we contend that these are barred because they have been declared to be illegal by this court. We do not know, but we think that No. 2 is a quantum meruit. No. 1 is the express contract. [fol. 1013] No. 2 is a quantum meruit. Nos. 3 and 4 allege agreements which were entered into on February 1, 1948, which was when the Supreme Court of the United States first declared these contracts illegal, and we do not know whether there are being alleged here some supplemental contracts actually entered into, which we deny making, or whether they are alleging contracts implied in law.

Count 5 of the complaint deals with a straight infringement-of-patent case. It is based entirely on the claim that during the period between the first United States Supreme Court decision and the date of the decree of this court, we, National Gypsum, infringed the patents of U.S. Gypsum.

Chief Judge Stephens: What questions of fact will probably arise under your second claim?

Mr. Rosenman: The question of fact would be whether or not there has been any purge of the misuse of these patents by U.S. Gypsum. We contend that there has not been. On the contrary, we contend that the misuse con-

tinued up to the very date of the decree. After the decree the misuse stopped, and as Your Honors know, satisfactory royalty arrangements were entered into.

It is our contention that these patents were misused, and we would contend that even if Your Honors do not agree with our contention of the law, as a question of fact there has been a misuse of the patents, and that the defendant U.S. Gypsum Company has never complied with the doctrine of the Morton Salt case, anticipating the effects of [fol. 1014] the misuse, nor has it terminated the misuse.

Now, that might give rise to some questions of fact. We do not know.

Chief Judge Stephens: In determining the question of fact relating to the purge or no purge, have you any estimate as to how many witnesses will be called, or whether the factual issues will be determined upon documentary evidence, or what?

Mr. Rosenman: It is difficult for me to answer that question, Your Honor, because I do not know whether they would really deny paragraph 21 of our complaint. I have no way of telling.

Chief Judge Stephens: Is there anything further?

Mr. Rosenman: I would like to state to Your Honor what we would hope would come out of this conference, if I may, if this is the time to do it.

Chief Judge Stephens: Very well.

Mr. Rosenman: We would like very much to ask Your Honors to try to dispose of these questions of law with such expedition as suits Your Honors' convenience. I do not know whether Your Honors have been informed, but we have filed a notice of motion for a stay in the Iowa court awaiting the determination by this court of these questions of law. We should like very much to ask Your Honors to direct all parties who want to file any petitions or papers of any kind which are consistent with the position taken by my client to do so within a short time. We would [fol. 1015] suggest, if I may be presumptuous enough to suggest the time, that that might be done within a week, and that thereafter, two or three weeks be permitted for answers by U.S. Gypsum and any other parties who wish to take an adversary position to that taken by my client,

and that thereafter Your Honors set down some times for briefs on these questions of law and permit us to argue this, if Your Honors' convenience would suit it, sometime in July.

That would be the request that we make. Of course, Your Honors' convenience will have to determine that. But we would earnestly petition Your Honors to enable us to present these questions of law to you in brief and in oral argument, as I say, with as much expedition as suits Your Honors' convenience.

Chief Judge Stephens: I did not understand you on one point. For what purpose did you suggest that a week should be allowed?

Mr. Rosenman: For the United States Government or anyone who wishes to file a petition consistent with our own to do that promptly and then permit answers to the various petitions of Certain-Teed and National, and if the United States Government files a petition, the United States Government.

Chief Judge Stephens: Thank you, Mr. Rosenman.

We will hear next from Ebsary, Mr. Rippey.

Mr. Rippey: If the Court please, the complaint against the Ebsary Company is similar to that against National, with the exception that there is one additional count, Count 6, which is on a new patent. The Ebsary Company [fol. 1016] did not take a new license agreement after the decree of this court, whereas National did. That sixth count is for patent infringement. Aside from that the first five are similar.

The petition asks for an injunction against present and future suits by U.S.G. of this nature, and a direction that they discontinue the present suit. The Ebsary action now pending is in the District Court for the Southern District of New York.

Now, if the United States Gypsum concedes that this court has superior jurisdiction, which we believe that it does, being constituted as a special court, then the relief of the petitioners should be granted. On the other hand, we do not know the position at this point of the United States Gypsum Company. If they deny the jurisdiction

of this court to handle the matter, then the ordinary procedure is that they should answer the petition.

In any event, we believe that there should be a temporary injunction.

Now, there may otherwise be a multiplicity of suits. There are already four. The calendar of the Southern District of New York I understand to be congested and behind. It may be necessary, in the defense of the suits, for us to call witnesses from the other companies, so that it may be that we will have four or more trials substantially alike.

We believe that this matter should be disposed of in this court, and not in various districts throughout the country. [fol. 1017] Chief Judge Stephens: Newark Plaster, Mr. DeWitt.

Mr. DeWitt: If the Court please, the position of Newark Plaster Company in some respects is the same as that of the National Gypsum Company. In other respects it is somewhat different.

An action has been brought against Newark Plaster Company in the District Court for the District of New Jersey. The claims made in that suit are substantially the same as those made in the action brought against Ebsary Gypsum Company in the Southern District of New York.

Unlike the action brought against the National Gypsum Company, a claim is made in our suit that we have infringed an additional patent which did not enter into the litigation in this case.

We are in a somewhat different position from National Gypsum Company, in that Newark Plaster Company during the period for which it is now being sued, claims that it did not make any use of these patents. We had a different process under which we manufactured gypsum board, a Urak proceed. And during this very period for which we are now sued, we claim that we were not using any of the patents of U.S. Gypsum Company.

So if our position in that respect is correct, the U.S. Gypsum Company is in the position now of suing us during this period for royalties on boards manufactured under a totally different patent. I do not know that that issue will come up in these proceedings. I mention it only because

[fol. 1018] it distinguishes our case somewhat from that of National Gypsum Company.

We take, therefore, the same position that National Gypsum Company takes, namely, that these license agreements have been declared null and void. Having been declared null and void, we contend that U.S. Gypsum cannot recover any royalties against us under those license agreements.

We did not, as did National Gypsum Company, take out any license under the Roos patent after this court handed down its decree. Your Honors will recall that provision was made in the decree for U.S. Gypsum Company to grant licenses. We did not take any license at that time because, as I said before, we were not using any of the U.S.G. patents.

Chief Judge Stephens: Certain-Teed?

Mr. Miller: The position of Certain-Teed is almost exactly parallel with that of National Gypsum. We did take a license, as did National Gypsum, of the basic bubble foam patent after the entry of this court's decree on May 15, 1951. We also were sued in the District Court for the Northern District of Iowa, and have answered in that suit.

We have also filed a petition here which in large part is based upon the same theory as the petition filed by National Gypsum Company. The only point of divergence, if there is any, is on the ground that, even as to the purge, in our opinion, that also is a question of law which can be decided by this court without the taking of evidence on that question.

[fol. 1019] We have not, therefore, filed two separate claims as has National Gypsum Company, in our petition, but have based it almost entirely on the view that this court's decree prevents any action by U.S. Gypsum to collect royalties for the period between the date of the first Supreme Court opinion and this court's decree of May 15, 1951.

Generally I think the other parties have stated the position that Certain-Teed will take in this matter.

Judge Cole: I find a copy of the complaint filed against Certain-Teed in the Northern District of Iowa, but not the answer. You say you filed an answer?

Mr. Miller: Yes, we did, if Your Honor please. I have copies available here which I will give to the clerk.

Chief Judge Stephens: Furnish the clerk with one copy for each of us, please, and one for the clerk.

Judge Garrett: Do we have a copy of the bill of complaint in Iowa?

Chief Judge Stephens: Yes. That was in your file.

Mr. Rosenman: National has also filed an answer, Your Honors, in Iowa, subsequent to the date of the filing of this petition. If Your Honors desire, we can file copies of that answer here.

Chief Judge Stephens: Yes. We shall be glad to have all papers that have been filed, one for the clerk's office and one for each of the Judges. Thank you, Mr. Rosenman.

Now, do each of the parties who are petitioners seek a [fol. 1020] preliminary injunction pending the disposition of this case? Mr. DeWitt and Mr. Rippey, you all seek a preliminary injunction, do you?

Mr. Rippey: Yes, sir.

Mr. Rosenman: Speaking for National, sir, if by "preliminary injunction" Your Honor means a temporary restraining order effective immediately, National is not requesting that. We think that the orderly procedure is the one that we are following, namely, to apply in Iowa, in the jurisdiction where the complaint has been filed, for a stay there, and we are not pressing at this point for a temporary restraining order. We think that we are following the procedure outlined by the comity of jurisdictions, and we are applying in Iowa for a stay. If we are denied that relief there we can come, of course, we reserve the right to come to Your Honors for such a stay. But at present, speaking for National, while we are asking for a temporary injunction on the merits finally after argument we are not now asking for a temporary restraining order.

Chief Judge Stephens: That is what I had in mind.

Do Ebsary, Certain-Teed, and Newark ask for a temporary restraining order?

Mr. DeWitt: Our position in that respect is the same as that of National. We have applied in the District Court of New Jersey for a stay. We do not care where the stay originates so long as we get it, because we think that it is

[fol. 1021] senseless to duplicate this litigation in all these District Courts and here as well.

So we shall ask the court in Newark for a stay, and failing to obtain one there, apply to Your Honors.

Chief Judge Stephens: And Ebsary?

Mr. Rippey: Your Honor, we want also a stay from some place. Our intention was to apply to the Southern District of New York court on that, at this time.

Chief Judge Stephens: Certain-Teed?

Mr. Miller: Our position is the same as that of National. We intend to file a motion for stay in the Iowa court, but reserve our right to appear here.

Chief Judge Stephens: Celotex?

Mr. Hallett: I wanted to explain our situation. It will only take a minute or so.

Chief Judge Stephens: Take your time.

Mr. Hallett: When Mr. Spray of United States Gypsum discussed the possibility that he wanted us to pay him for these royalties, we told him—I was authorized by the president of Celotex and by its directors to tell Mr. Spray—that he need not sue us. And we set that fund up, that money. It is still there. In fact, we are having trouble. The income tax department would like us to pay an income tax on it. So I am sure that it is still there.

We told him that we would abide the outcome of these other suits. Factually, we are in the same situation as Na-[fol. 1022] tional Gypsum and the other three, except that we are rather on the small side in so far as the amount due is concerned. I want to advise you that indirectly we are a party to these petitions, because what happens here will affect us, but we are not in actual litigation.

Is that correct, Mr. Spray?

Mr. Spray: That is a correct statement, yes, sir.

Chief Judge Stephens: Mr. Knuff, for the Government?

In there anyone else for any of the private parties?

Apparently not.

Mr. Knuff: With Your Honors' permission, I would like to make it clear that from the fact that the Government has not formalized its position on the record, no inference should be drawn one way or the other that the Government favors one form of relief as against the other.

We have had in the Department this matter up for consideration for some time, as to what our position should be. The question is not without its great difficulties, and up until the present time, the Department has not made up its mind as to the position that we will take in the matter.

During the past month or so, various parties to this proceeding have come in to see us and present the views that they think we should take. We have listened to their contentions, and the last party that came in was only in on last Wednesday. I am sure that at least one member of [fol. 1023] the court recognizes the tremendous responsibilities that a new Assistant Attorney General assumes when he come- in to head up a department of the Department of Justice. For that reason it is almost impossible for Judge Barnes to give this matter the attention that it deserves consistent with the other work that he has had.

I will say that we will formalize our position on the record in a formal pleading. Now, I do not know whether this is the time for me to reply to Judge Rosenman's contention concerning the time. If it is, I will; if it is not, I will delay that.

Chief Judge Stephens: I was going to ask you that in the next question. How much time will you need to formalize your position and file pleadings?

Mr. Knuff: I can readily understand that Judge Rosenman's position is that we should do this within a week. We have had this matter up in the Department as to what time we think we need. We do not think that we can formalize the action that we are going to take much before the 30th of this month. We will try to do so. But we do not believe it to be possible for us to get the necessary pleadings prepared before the 30th.

Chief Judge Stephens: Thank you, Mr. Knuff. Mr. Lynch?

Mr. Lynch: Mr. Spray will speak for the United States Gypsum Company.

Chief Judge Stephens: Mr. Spray.

Mr. Spray: May it please the court, I will speak for the United States Gypsum Company in Judge Brownley's [fol. 1024] absence this — He is on vacation. I talked with

him Saturday, and while he said that if I insisted, he would come on for this hearing, knowing how difficult it is for lawyers to get on vacation and how hard to stay there sometimes when they get on and having in mind the limited purpose of this hearing as I understood it, I did not feel justified in asking him to take a couple of days away from a much needed vacation to be here.

However, what I say I know is in accord with his views on the matter.

At the outset, I want to make crystal clear one or two points. In the first place, neither the United States Gypsum Company nor any of its attorneys would knowingly take any action in violation of an order of this court. We have tried conscientiously to respect and abide by every order which has been entered by this court. We are confident that we have not deviated from our determination in that respect in the bringing of these suits, and that upon a complete consideration of the matter this court will be completely satisfied that the action which we were forced to take to avoid forfeiting this substantial amount which our client feels is due it for the actual use of its patents during this period, was in no respect, either directly or indirectly, in contradiction of or in violation of this court's decree of May 15, 1951.

In the second place, I want to make it clear that neither the company nor any of its attorneys have any fear of [fol. 1025] presentation of this matter to this court. Nor do we wish to appear to be avoiding or trying to avoid this court's determination on these questions, if the court is satisfied that it has jurisdiction and if it is disposed to consider the matter.

We do think there are some questions there which are serious and which the court will want to consider and which I will refer to somewhat later this morning.

I think it is somewhat necessary for me to state a little of the background of these suits so that there may be no misunderstanding at the outset about them. And in doing that, I think I can clear up some of the questions which appear to be in Judge Rosenman's mind as to these five counts, which it is quite obvious are not clearly understood.

This court, of course, was fully aware of the facts surrounding these license agreements as they were developed in the trial of this case antedating the actual entering of the licenses, the litigation back there, the settlement of that litigation, the license agreements, the operation under the licenses—everything in its most intimate detail down through 1941, which I believe is where the evidence in this case stopped.

Our trial was concluded in April of 1944, but I think that the evidence did not go much beyond the year 1941, if at all.

When the first Supreme Court decision came down on March 8, 1948, it was quite a shock to both the licensor and its licensees, and it had a very definite effect on the [fol. 1026] operation under these license agreements.

As this court knows, from one of its prior findings, there had not been any price fixing under these licenses since July 8, 1941. Nevertheless, the parties continued to operate under them. The licensees made their reports and paid their royalty, and we had made the audits which we were entitled to make periodically to see that we were getting our full royalties.

But when the Supreme Court rendered its decision on March 8, 1948, we were all very much puzzled, and there was much doubt as to just what that decision meant. And I dare say that in the years to come as lawyers meet, there will still be questions raised as to just what was meant in that decision.

We felt that it could not possibly mean anything other than that a prima facie case had been made. The Government took a different position. Nobody, neither the licensor or the licensees, desired to be taking any step that might be considered in disrespect of or in violation of the views of the Supreme Court.

As a result, we stopped in our tracks. We stopped in our tracks under those licenses. The licensees ceased making reports and ceased paying royalty, and we made no effort whatsoever to enforce the license or to compel them to pay us royalties under the licenses. There was, I think, an abandonment of the licenses at that point, and I believe they were repudiated certainly by the licensees, and we

[fol. 1027] acquiesced in the repudiation, and there was, by act of the parties, a rescission of those licenses back at that point.

Nevertheless, the licensees continued to use our patents, with certainly our understanding that for the actual use of the patents we would be paid a reasonable compensation. That certainly was the understanding of the licensees in the early stages of this period, although before the period was over, there were some rumors that indicated some feeling that the Katzinger case and the MacGregor case might make it possible for them to avoid paying royalties. Nevertheless, we continued at all times to take the position that if our property was used, we expected them to pay for it.

As this court knows, during the period that we are talking about, from 1948 to 1951, we did file with the court revised forms of licenses which we were willing to enter into which eliminated all price fixing and all the provisions that were objectionable in the other licenses, and those were the forms of license agreements that were approved by this court when it entered its decree of November 7, 1949. But no licenses were granted under that.

We come to the May 15, 1951, decree, which called upon us to grant licenses at a reasonable royalty to anyone who might apply for them.

Following that time, National, Certain-Teed and Celotex did make application for licenses. We were confronted [fol. 1028] then with the proposition of this use that had not been paid for. We concluded that we would take no action that could possibly be considered failure to comply strictly with this court's position, and so we granted those licenses without reference to this amount that was due us for the use during the period involved, although in all our communications with National, with Celotex, and with Certain-Teed, we made it perfectly clear that we were offering the licenses, that we were entering into the licenses, that we were accepting the royalties under the licenses, with it clearly understood that it was without prejudice to the claim which we were making for the use of these patents prior to May 15, 1951.

So that was fully understood.

We finally reached a point, Your Honors, where we had to take some action or else forfeit this claim which we felt we were entitled to, or our client was entitled to. The statute was running. It was obvious we were going to have to bring suit. And as a matter of fact, the suggestion in one or two instances was rather made to us that suit should be brought.

There was a feeling that while there was a moral obligation to pay us for the use of these patents, stockholders might claim that there was no legal obligation to pay, and try to surcharge the officers if payment was made short of court order.

So we filed the suit against National in the State of Iowa on January 28th of this year; and later we filed suit [fol. 1029] against Certain-Teed in that same court. The State of Iowa was chosen first because we felt if this ever got down to an infringement claim, we should be in a district where the plant was located and where the board was actually made during this period. And National, Certain-Teed, and U.S.G. all had plants in or about Fort Dodge, Iowa, so that we had this factual situation which we felt was good from any infringement standpoint.

Likewise, we were informed that Judge Graven in Iowa was an extremely competent, conscientious judge, and we felt that this was a case that he would handle with dispatch and competence.

I think that Your Honor has asked a question about the five claims. To me the main thrust of our case out there is that these license agreements during the course of this period were rescinded by act of the parties, but there was a continued use of the patents under circumstances in which the law would certainly infer a promise to pay; in other words, a quantum meruit recovery for the reasonable value of the use of these patents during this period.

How, in framing our complaint, we were confronted with this proposition. A court might very well confront us at the close of the case with a careful and proper distinction and analysis of the cases. We might still have lodged a claim under this contract, and, of course, if we had a claim under the contract, we would not have recovery, either [fol. 1030] under infringement or under the quantum meruit counts.

Therefore, we felt, as an ounce of precaution, we had to include a count on the contract itself, and so such a count was prepared and included, and in the logic of things it became the first count on the contract.

The second count is really also on the contract, but with some slight modification which we felt was made.

Counts 3 and 4 are really the quantum meruit counts.

Count 3, as Your Honor recalls, proceeds upon, first, the rescission of the contract—the contract is out of the way—and then the continued use for which promise to pay is made and inferred by law.

Count 4 is the old common law quantum meruit count; and Count 5 is the infringement count.

I have spoken of infringement of our patents. I might just say that as far as the Iowa suits are concerned, there is, as Your Honors will recall, only the charge of using this one patent, the basic foam patent. That was done in the hope and expectation that we would presumably——

Chief Judge Stephens: That is the Roos patent?

Mr. Spray: The Roos patent; that is right. The fundamental Roos patent. That was done in the hope and expectation that we might simplify the issues there, because both of these companies, National and Certain-Teed, following the entry of the May 15, 1951, decree, had applied for a license under that basic Roos foam patent. They had [fol. 1031] not included a couple of the other foam patents which were supplementary to it. And they paid us royalties under a license which only required the payment of royalties if they were actually using the patent.

Therefore, we thought that by limiting it to that one patent, there could be no question as to its use during this period and no question as to the amount of damages which we had sustained because the new license took the same one percent royalty which was included in the old licenses.

We are surprised, of course, to find now that in the answer filed there, there has been a denial of the use of this patent and a challenge as to its validity which means maybe that we did not simplify matters after all, although I think ultimately it will work out that we did.

Now we have the suits against Ebsary and Newark, which from the statements made here, differ substantially from

the suits out in Iowa, in that neither of those companies had ever applied for a license under the May 15, 1951, license.

Therefore, there was no occasion or reason such as we had in the other cases for limiting it to this basic Roos patent.

Furthermore, we felt that they were using not only that patent, but the other foam patents which were listed in those complaints, and they covered a different period of time, in that they carry right on down through to the expiration of the basic Roos patent last October and to date with respect to the other patents involved.

[fol. 1032] So in those cases, we included similar counts, and with like reasoning as I gave in the counts for the Iowa suits. But we also included other patents which we felt were being used in this process that Mr. DeWitt has mentioned Newark is using.

Now, the next thing we knew was, first the National petition filed here on March 25th and the following petitions by Certain-Teed, Newark and Ebsary.

It is our position that the decree of May 15, 1951, does not deal with the matter of compensation for the use of U.S.G.'s patents prior to that date. The matter was not before this court. It was not involved in any issue formed by the pleadings or in the findings, orders or opinions of courts. As a matter of fact, it could not have been before this court without the filing of a supplemental bill, because, as I have said, you had no evidence after 1941, and we are dealing with the matter of the right to use United States Gypsum Company's patents during a period of from 1948 to 1951, so that there would have had to be supplemental proceedings before this court before that question could have been determined by the May 15, 1951, decree.

There was no suggestion of any sort for an injunction against U.S.G.'s obtaining compensation for the use of its patents during this period. Now, it is our position that when and where that is desired and we have decrees here by the score or the dozens, both in adjudicated cases and [fol. 1033] consent decree cases, where there is a specific provision not only holding the contracts illegal and invalid, but a specific provision that there shall not be any recovery for use of the patents prior to the date of the decree, that

comes in various forms, and it is in, as I say, scores of antitrust cases.

No such provision was in this decree or suggested or even talked about. On the contrary, every indication was in the proceedings before this court when we were considering that final decree, that U.S.G.'s patents were not to be confiscated in whole or in part.

As Your Honors will recall, every proposal for compulsory licensing carried with it that we should receive a reasonable compensation for the use of our patents. And this court was assured that the Government was not trying to confiscate patent rights; it was merely applying a rule which the Supreme Court had approved, that under circumstances such as this for a limited time, it was to include a provision for compulsory licensing with reasonable royalty, however.

[fol. 1034] The Government's first decree filed back in 1948, along with its findings, provided for compulsory licensing, but with reasonable royalty.

To give you our views of the procedure on these petitions, we have given a good deal of thought to it. We do not feel that they are properly filed under Article 10. I do not mean to get into the merits here at all of these points, but Article 10 is a limited reservation. When you lay it alongside of the hundreds of other decrees, you find that it is extremely limited, and we do not believe that these petitions are an effort to construe or carry out and enforce the decree, but rather are trying to enlarge its injunctive provisions at this late date.

We believe that the petitions are trying to get an adjudication on the matter that was not before the court in the last proceeding. We believe that they are trying to take the jurisdiction away from another Federal court of competent jurisdiction.

We had thought of moving to strike and have given a good deal of thought to that and filing the motion before this hearing, but we hesitated because of some of the charges that are in these petitions.

And I can answer Mr. Rosenman now that we are denying and will deny the allegations of paragraph 21. In fact, it was some of the allegations in that paragraph that caused

[fol. 1035] us to hesitate in filing a motion that would leave us here without a denial to some of these charges on the record.

It seemed to us there has been the suggestion made by counsel for the petitioners as to procedure and particularly Judge Rosenman. I should like to make this suggestion as to what seems right to us, and that would be that the petitioners in accordance with the rules of the court here, I believe, should first file their statement of points and authorities in support of what they are asking this court to do, and that could be filed whenever they are ready.

I have no time features that I am thinking of here. Then it would seem to me that United States Gypsum Company should file its statement of points and authorities in opposition, which I think is required by the rules of this court, and at the same time file our answer. Then we will have the issue joined on this thing. Upon the joining of issue it may well be that the court would want the filing of briefs, which I think would be in order.

It might well be that the matter would then be ready for setting down for hearing—either the matter on the merits and on its entirety or it might be at that point that with these points and authorities before the court there would be some preliminary issues which the court might feel should be determined in the first instance, and I am speaking of this questions as, are these petitions under Article 10, [fol. 1036] does this court have any jurisdiction to pick up this matter which involved, I think another suit, a controversy between the United States Gypsum Company and these various other gypsum manufacturers as to compensation for the use of these gypsum patents back in 1948, and the 1951 period. It might be that some of these things are those the court would want to determine first, but at least we would have the issues joined, at least we would have the position of all parties stated before the court, and the court at that point could determine what, in its judgment, would be the next procedural step.

That would be the suggestion which I would like to offer to the court.

I am also prepared to try to answer any other questions which the court may want to ask me at this time.

Judge Cole: What position, if any, have you taken in the Iowa litigation as to the restraining order in that proceeding pending the outcome of this petition here?

Mr. Spray: We have had no occasion, sir, at this point to take any position there. Answers have been filed. I can assure you that the same issues are raised there as are raised here. Our position there would be exactly the same as it is here, and that is that the decree of May 15, 1951, does not in any way touch or prevent us from bringing the suit which we have brought out there. I think there is nothing more fundamental in equity decretal procedure than that courts of equity do not enjoin by inference or enjoin [fol. 1037] by implication. It is a fundamental thing that if you are to be enjoined it should be clearly and specifically stated, and it is assumed that the court enjoins what it means to enjoin and is specific in stating its position.

Our position there will be there as it is here, that our action is not in any way barred, or we would not have brought it. I mean, barred by this decree or we certainly would not have brought it.

Chief Judge Stephens: No temporary restraining order seems to be requested at this present time. Counsel for the petitioners, apparently being of the view that those judgments will not be entered in the several other jurisdictions in the immediate future, or if such judgments were threatened, it being the opinion of view that the trial court there would suspend proceedings until this court has had an opportunity to act.

What have you to say on that in substance? Of course, regardless of our ultimate decision on the question of jurisdiction which may be raised, we have jurisdiction to preserve our own jurisdiction, and there ought not to be an entry of judgment in the other courts while this case is pending here; otherwise, should we ultimately find that we have jurisdiction and that the petitioner is entitled to an injunction our relief might be futile, nugatory.

What have you to say in that respect, Mr. Spray? Is [fol. 1038] there any likelihood of these proceedings in the other jurisdictions going forward to the point of judgment while we are considering this matter this morning or in the early fall, if that should be prolonged so long?

Mr. Spray: I think not. It has been called to my attention that possibly I misunderstood Mr. Justice Cole's question. It may have been directed to what our position would be on these motions that are being filed out there.

Was that your question?

Judge Cole: My question was exactly as Chief Judge Stephens asked. I understood that several counsel asked that the proceedings be suspended pending the outcome of this petition and hearing here.

Mr. Spray: My answer to both questions—I am glad it has been brought up again—is that we, of course, have brought a suit earnestly and sincerely and called upon the court to assume jurisdiction in the matter in these other jurisdictions. And we did that in the belief that that was the proper jurisdiction, and that this is not.

In those motions before those courts we certainly would state the same position, as I say, we stated here, that we do not believe that this court should act in this matter and that we do believe that the court had jurisdiction.

However, I think I can state with complete confidence that there is not any question of these things going to [fol. 1039] judgment before there could be a decision of this court in the fall. There just is not any possibility or likelihood at all of that.

The suits in New Jersey and in New York have not even been joined. There has been no answer filed.

The suits out in Iowa have formed an issue, but it is perfectly clear that they could not be and would not be tried. And I can be very confident of that, Your Honor, that there will be no judgment before you could act on it here.

Mr. Miller: May I make a statement in answer to that?

I appeared before the District Court in the Northern District of Iowa before Judge Graven sometime in April, asking for an extension of the time within which to answer the pleading, at which time Judge Graven stated that he intended, if at all possible, to try this case in July, the cases pending in his court, consolidating the Certain-Teed and the National case into one, so it would not interfere with his calendar in the fall. He had a heavy calendar.

Apparently it is clear from Mr. Spray's answer to Judge Cole that they intend to oppose the motion to stay in that court.

Chief Judge Stephens: Was the United States district judge there aware of the pendency of this suit?

Mr. Miller: I do not believe he was at that time. I am not certain as to that. At least our pleadings had not yet been filed, so he had no opportunity to know of the filing of these proceedings.

[fol. 1040] Mr. Spray: You know, Mr. Miller, that the order that was entered in connection with the extension that he would expect to try the case in the fall was changed, and he is now planning not to try the case before November.

Mr. Miller: I do not know that.

Mr. Spray: That is the fact. I thought it was in an order in the court.

Mr. Miller: No, no, there was no statement on that.

Mr. Spray: The reason I did not mention the July trial, I know that statement was made, but now that idea of a July trial is completely out, and the first possible trial there would be in November. That was the basis of my statement.

Mr. Miller: Of that we have not been advised.

Mr. Rosenman. May I supplement what Mr. Miller has stated, perhaps, by passing up to Your Honors a certified copy of the memorandum signed by Judge Graven setting this down for July. We have no information of what Mr. Spray says about this being put on for November.

We have certainly no assurance that the District judge in Iowa would deny our motion for a stay. We have no assurance as to what he would do about the trial of this.

Mr. Spray: Judge Rosenman, I am sorry. I do not have my court file here, but there is an order subsequent. I know of that order. There is a subsequent order which your local in Dubuque, I am sure, will know all about which does [fol. 1041] modify and change and repudiate that July date.

Mr. DeWitt: If the Court please, it seems to me there is going to be an unnecessary duplication of work in these various lawsuits unless there is a stay granted in the various jurisdictions.

In my own situation I have until June 30 in which to file an answer. If there is no stay granted in Newark I shall, of course, prepare and file an answer.

It is not therefore a question as to whether a judgment will be entered in these various suits before this court makes its decision. Various matters will have to be taken care of in these various jurisdictions.

Chief Judge Stephens: The judgment is what concerns this court, because the entry of a judgment in those cases might make this case moot.

Mr. DeWitt: I appreciate that.

Chief Judge Stephens: I can appreciate counsel's point of view, also, however, that might wish to avoid duplication of work.

Mr. DeWitt: Yes, we will all be doing work in these various jurisdictions which will be a duplication if this court decides in favor of the claims in the petitions. I was gratified that Mr. Spray indicated that they are not going to move to strike the petitions, but are going to try to dispose of the case on its merits here.

In view of that statement, it seems to me that Mr. Spray [fol. 1042] might well not oppose an application for stays in these various jurisdictions. Then we would have the determination here and upon that determination would depend whether or not anything would have to be done in the other jurisdictions.

It would seem to me that would be the orderly way to do it, and in that way eliminate this needless duplication of effort everywhere.

Chief Judge Stephens: Well, there certainly ought not to be any unseemly race or competition for jurisdiction in these cases as between these several United States District Courts concerned. And we feel sure there will not be, certainly, so far as counsel on either side of this case are concerned. And we would assume that the other courts would suspend the proceedings there in some manner until we had an opportunity to hear you here, since we have jurisdiction over our own decree, at least, to some extent under our reservation of the jurisdiction.

Judge Garrett suggests, Mr. Knuff, that it would be desirable, and I think Judge Cole would share his view,

that when you do come to the point of stating your position you state it on the jurisdictional question as well as the others.

Mr. Knuff: We will be happy to.

Chief Judge Stephens: Of course, we would take steps here to protect our own jurisdiction, that is, to preserve our jurisdiction for the purpose of hearing this proceeding if it became necessary, but since no application for a stay [fol. 1043] order has been made now, that is, for a temporary restraining order, in view of the statements made by counsel on both sides, we will assume that there will be no necessity for stay orders, that is, for temporary restraining orders at the present time or later. Of course, counsel may apply for such an order should exigencies arise demanding it.

What about this matter suggested by Mr. Spray, Judge Rosenman and counsel for the other petitioners, with reference to the filing of points and authorities by the petitioners, first, within such time as they see fit to file them, and then the filing of an answer and points and authorities in support of it by the Gypsum Company later, and then the setting of an argument of the issues which arise in that manner?

Mr. Rosenman: I should think, sir, that the more orderly procedure would be for the United States Gypsum Company to file its motion if it is so advised with respect to this court's jurisdiction, together with any allegations contraverting the factual allegations in our petition, and that after that is done we should be called upon to file briefs or perhaps exchange briefs.

I think that the issues ought to be determined, that is, the legal issues and the factual issues ought to be determined by a motion addressed to the jurisdiction of this court and an answer contraverting facts or setting up any additional facts, so that we may address our brief to the issues raised of law and fact.

[fol. 1044] And what I think Mr. Spray is suggesting is the obverse of that thing, to have us file a brief without knowing exactly what their position is going to be. And we did not know until today what their position is going to be at all. Apparently they are going to contend that we

are not properly in court under Article X. And also they are going to raise the factual question.

We think that those issues ought to be presented, sir, before either side is called upon to file briefs.

Chief Judge Stephens: Is there anything further on that subject from counsel for the petitioners?

Mr. Miller: We think, if Your Honor please, that there can be no question that the issues ought to be made before we are called upon to file the briefs, and that Mr. Spray ought to take the position to either move to strike the petitions on the ground that this court has no jurisdiction or to file an answer. After he has filed an answer and we know what we have to meet, we should be happy to meet such time for the filing of briefs that this court may fix.

Mr Spray: May I just comment on that? It seems to me that any time anyone applies to the court for an order, such as is applied for here, he must be prepared under the rules to state his points and authorities in support of what he is asking the court to do.

That is what Rule 9(b), I believe it is, contemplates. Then the defendant or the party against whom relief is sought files his opposition memorandum of points and au- [fol. 1045] thorities.

I just feel that that is following the logical course and procedure set out by the rules of the District Court here.

Chief Judge Stephens: The court will take a recess at this time in order to consult with respect to some of the matters that occur to us. And we may then have some further questions.

(Thereupon, at 11:15 o'clock a.m., the court recessed, to resume at 1:45 o'clock p.m., the same day.)

[fol. 1046] Afternoon Session

1:45 p.m.

Chief Judge Stephens: We have one further question to ask and then we have a statement to make as to our views in respect of the matters we have been discussing.

The question is this, and I will ask it of petitioners' counsel: Is there any contention that any violations of the antitrust laws are going on now, or is the violation which is complained of or asserted here limited to the conduct

of the defendant Gypsum Company and the other parties named during the three-year period, 1948 to 1951, to wit, the negotiations or contracts or conduct which is the subject of these suits in foreign jurisdictions?

I ask that question because it had to do with the time when this case ought to be heard.

If it is charged that violations of the antitrust laws are going on now, why that would be some reason for expediting the case, the case being one pending on the expediting act, but otherwise it would not be necessary to the court to rush the case on for hearing this summer.

What is the contention of the petitioners on that subject?

Mr. Rosenman: Sir, we think an answer to your question is that we know of no antitrust violations going on now with this exception: We have urged that the maintenance of these suits in Iowa and New York and New Jersey are themselves violations of this decree, that they are a con- [fol. 1047] tinuance of the misuse of the patents. The very bringing of the suit is a misuse of the patent.

Chief Judge Stephens: We understand that to be your contention, or one of your contentions, but we have been given at least informal assurance this morning that those suits will not be actively prosecuted until this court gets a chance to express itself.

Mr. Rosenman: Then to answer your question, we know of no violations outside of that.

Chief Judge Stephens: May we hear from counsel for the other petitioners?

Mr. DeWitt: We do not make any contention that there are current violations of the antitrust laws.

Mr. Miller: Our position is the same on that.

Chief Judge Stephens: With respect to the Government's request to have until the 30th of June to file a statement of its position we think that is not unreasonable. That time will be granted, Mr. Knuff.

Mr. Knuff: Thank you.

Chief Judge Stephens: With reference to the matter of points and authorities, this case is not quite accurately describable as a mere motion which is covered by Rule 9(b), which contemplates that when motions are filed in a pending case they shall be supported by points and authorities.

The rules do not contemplate that points and authorities shall be filed in support of an original action, that is, the [fol. 1048] original petition or declaration or complaint. However, the point is not so much one of nomenclature as it is of getting assistance of counsel for the benefit of the Court.

And this is a proceeding filed within the proceeding, not technically called a motion, but it is a proceeding filed within the proceeding. These petitions are filed in Civil Case No. 8017 which is the case of the United States v. the United States Gypsum Company, et al., in which we entered the decree, and it seeks to enforce or interpret or apply that decree. That is, these petitions do. And we think it is not inappropriate, therefore, for us to ask counsel for the petitioners to file points and authorities under Rule 9(b), because we think it will be helpful to us, if we had them.

The rule says:

> "With each motion there shall be filed and served a separate paper stating the specific points of law and authorities to support the motion. Such statement shall be additional to a statement of grounds in the motion itself, and shall be entered on the docket but shall not be a part of the record. The moving party shall enter the motion and the fact of filing the statement on a card provided by the clerk. A statement of opposing points and authorities shall be similarly filed, noted and served within five days or such further time as the court may grant or the parties agree upon. If [fol. 1049] not filed within the prescribed time the court may treat the motion as conceded. If so filed the motion shall be treated as submitted unless the judge directs or either party requests an oral hearing, for which ten minutes will be allowed each side."

That rule, however, is subject to modification. It is within the discretion of the court with reference to the time involved. And we are disposed to make this suggestion, but we will hear you before we make a decision. We should like to have points and authorities from the petitioners outlining the theory of their proposed action and the relief

which they seek from us. We would like to have them filed within such reasonably early time as it is convenient to the petitioners' counsel. We understand, Judge Rosenman, the reason why you would like to have the answer in first, in order that all participants may be advised of all issues that are going to be raised, but we think it would be helpful to the Judges if we had your points and authorities and those of the other petitioners in the reasonably near future some time when you can fairly conveniently submit them to us.

And that we think that the defendant, the Gypsum Company, ought to file its answer and its brief in support of its position within such time as we will accord it after hearing what its needs are.

And then if it turns out, Judge Rosenman, and counsel for the other petitioners, that issues are raised in the answer [fol. 1050] which you do not anticipate when you file your points and authorities, you will be given an opportunity to file a further brief in respect of that.

And we would like to have not merely an exchange of briefs, but a brief and an answer brief and a reply brief necessary on both sides, because we find and have found in some instances, in the trial of the Gypsum Company case, that when the briefs were just exchanged at the same time, frequently there were points left unmet, occasionally by one side and sometimes by both. As a result of which we have had to either ask for more help or give it to ourselves by our own research. And we would like to have the benefit of counsel's help.

So we will give the Government to the 30th of this month, Mr. Knuff.

How much time, Judge Rosenman and Mr. DeWitt and the other gentlemen, and Mr. Rippey, who represent the petitioners, how much time will you need to present your points and authorities?

Mr. Rosenman. It would be very helpful to us if we could take our time after the Government files its, whatever it is going to file, a petition or a supplementary complaint or whatever it does—it would be very helpful to us if we could run our time from that.

Chief Judge Stephens: Do you share that view, Mr. DeWitt?

Mr. DeWitt: Thirty days after it. I was going to suggest that we have thirty days after the Government inter- [fol. 1051] poses whatever pleading it decides to interpose.

Mr. Rosenman: Thirty days would be adequate.

Chief Judge Stephens: That will be approximately the first of August.

Mr. Rosenman: Yes, sir, the first of August.

Chief Judge Stephens: Mr. Miller, will that be suitable?

Mr. Miller: That will be suitable.

Mr. Rippey: That will be suitable.

Chief Judge Stephens: How much time will you need for the Gypsum Company?

Mr. Spray: I might suggest thirty days after the other briefs are filed for our answer and our points and authorities, if that is agreeable.

Chief Judge Stephens: You mean by that if their briefs should be filed short of their thirty days, you only want to take thirty days after they are filed?

Mr. Spray: I believe it is a little better to put it on the calendar.

Chief Judge Stephens: And to make definite dates. We have a calendar here. We will see if we can not make definite dates. Can you furnish us a calendar for the next two or three months with respect to this?

With respect to the time of the hearing on such issues of fact or law as are developed, we will also hear counsel on this subject. And, of course, if an emergency should arise [fol. 1052] in the view of counsel for either side of the case, we would be glad to consider an application for a change of schedule, but it seems to us that if the only violations of the antitrust laws which are charged are those which are alleged to have occurred between the 1948 and 1951 period, and including the suits which are now being filed elsewhere, if that is the only antitrust violation which is charged, a part of it has already been committed, to wit, between 1948 and 1951, if it was committed, and in the suits which are not likely to ripen into judgment without an opportunity for this court to express itself, therefore, there is not any great pressure for bringing the case on this summer. I am in this situation myself, gentlemen.

I have enough opinions to write to keep me busy until the end of July. We keep a division of three judges on duty at all times here during the summer. I have become somewhat of a hard task master for my colleagues since I became Chief Judge.

I stated that we ought to be like a fire department, not that we would have to run all of the time, but that we should be ready to run as soon as the fire breaks out. So we keep three judges here. And I have to serve myself during August, on the petitions and motions and emergencies that come on during each month, including August.

I shall have to be away from the 20th until the 1st of August. I am hoping to get thirty days off between the 20th of August and the 20th of September, unless for cer- [fol. 1053] tain quasi-official duties which I shall have to attend to during that period. And the last ten days in September I am obliged to occupy myself with a judicial conference for the preparation of the resumption of this court the 1st of October.

Unless counsel on either side see some serious reason why the case should be pressed on sooner, we are disposed to announce that the case will be heard sometime in October or the earlier part of October, if possible, but we have to consult the convenience of my colleagues in that, who are regularly members of the Court of Customs and Patents Bench.

Does anyone see any objection to that kind of a schedule?

Judge Garrett: We could be ready by the second week.

Chief Judge Stephens: Probably by the second or the third week in October, yes—possibly during the second week.

Mr. Rosenman: I am not rising to make an objection, Your Honor, but there is in my mind the burden that we will have to file a brief in Iowa during July, at the same time that we do here, unless Mr. Spray decides to consent to a motion for a stay in Iowa which has been filed.

Chief Judge Stephens: I do not quite understand. Will you step to the lectern? We can hear a little easier from that central point.

Mr. Rosenman: Under this schedule, unless Mr. Spray consents to our application for a stay in Iowa, we will have

to file a brief here and a brief in Iowa at the same time. [fol. 1054] I am not urging it as an objection. We will have to do that.

I understand also from Your Honor that there are three judges here, so that in the event of some determination in Iowa inconsistent with our position that we might apply here for a formal stay then.

Chief Judge Stephens: There are not three judges. There will not be three judges of this expediting court here during the summer. I was talking about the United States Court of Appeals. We keep three judges of that court here during the summer time, but that court has no jurisdiction in this case. It is only this expediting court that has jurisdiction.

However, I think it is unlikely that Judge Garrett or Judge Cole and myself would all be away at the same time. Judge Cole lives in Baltimore, and I live here. And Judge Garrett may be away in Tennessee for a short time, but I think in any emergency that one of us could be reached and possibly we could assemble the court, if necessary, but I hope counsel will take steps, if they can consistently with the rights of their clients, not to make emergency action necessary.

It would seem to me that it would be quite improvident to go forward to any conclusive action in this litigation in these other suits while this case is pending here. And I would not think that the parties on either side would be disposed to do that. I would think that if the parties to the foreign suits would make the situation known to the [fol. 1055] judges in those suits they would not be disposed to press the case on.

However, if any emergency arises in which either side needs relief from this court we will make ourselves accessible some way or another.

Mr. Miller: I have a question to ask, Your Honor. I may not have heard Your Honor correctly. But did you make any provision for the filing of reply briefs?

Chief Judge Stephens: Not yet. We will, therefore, set the Government's time for the filing of such motion or petition, brief or other statement that it sees fit to file the 30th day of June. And the 31st of July for the petitioners to file their statements and points and authorities. And

the 31st of August for the United States Gypsum Company to file its answer and brief.

And while we have spoken of these papers for the petitioners in terms of points and authorities, we would appreciate their really being in the form of a brief printed, so that they will be convenient for our use. And with respect to any reply that might need be filed by either party, I should like to leave that to application. Possibly no reply will be necessary, but if after the Gypsum Company has filed its answer and brief the petitioners feel the need of filing a reply to fully inform the court as to their position, perhaps we could fix the date and leave it optional whether you file a reply and save counsel the necessity of applying.

[fol. 1056] How much time would you like to have to file a reply, another thirty days, or would fifteen days be all right? Fifteen days is pretty short for printing, is it not?

Mr. Rosenman: Yes, sir. If you could give us a month, and if we do not need it——

Chief Judge Stephens: Very well. That will be, to file replies, until the 30th of September. That is, if they are needed.

Mr. Spray: I just have in mind, of course, after the reply brief we will want an opportunity to consider that before this matter comes on for hearing. I had thought that maybe we were working on a tighter schedule, that the reply brief might be twenty days or perhaps we are trying to crowd our answer and the first brief with the printing and all pretty much in suggesting thirty days there. Maybe we should have until after Labor Day, the 8th of September, and then the balance of the month for the reply brief.

Chief Judge Stephens: To file what, your answer?

Mr. Spray: Our answer and brief.

Chief Judge Stephens: The answer and brief until when?

Mr. Spray: Well, I was figuring until after Labor Day, which would be the 8th of September.

Chief Judge Stephens: Until the 8th of September?

Mr. Spray: Yes, the 8th of September.

Chief Judge Stephens: Very well. If there is no objection. The Gypsum Company may have until the 8th of [fol. 1057] September. And you would like to have thirty days after that for the reply?

Mr. Rosenman: Yes, sir, in case we have to use it.

Chief Judge Stephens: That is right.

Now since you will have the points and authorities, Mr. Spray, in advance of filing your answer and your brief, and then when their brief comes in—well, I see your point is this, that their points and authorities may not present their full case because they may not anticipate all that will appear in your answer.

Mr. Spray: That is right.

Chief Judge Stephens: Therefore, for the first time you will see their contentions in some aspects possibly when their brief comes in after yours. You may need further time.

Mr. Spray: That is the point.

Chief Judge Stephens: That looks like it will run on over until November, instead of October, otherwise the court will have all of these papers too close to the commencement of the hearing, unless we shorten all of this to some extent. It is better to get first-class briefs in on all of the points of law and fact which are going to be at issue before we proceed to our hearing than afterwards, in our experience, because we make it a practice to read the briefs carefully before we have the hearing.

Maybe we had better not push it for October, maybe we had better get it in in November. How will that suit your calendar?

Judge Garrett: Very well.

Chief Judge Stephens: Very well. Let us do it that way [fol. 1058] then. That will give you until the 8th of September, Mr. Spray, to file your answer and brief.

Mr. Spray: September 8?

Chief Judge Stephens: Yes. And that will give you then until October 8, gentlemen, for the petitioners to file your reply.

Do you think until the first of November would be sufficient, Mr. Spray?

Mr. Spray: I would think so, yes, sir.

Chief Judge Stephens: We seem to be doling out this time on a 30-day basis. If you want thirty days we can give you another thirty days, if necessary. And we can

set the case sometime in the middle of November or thereabouts.

Mr. Spray: Perhaps we should do that.

[fol. 1059] Chief Judge Stephens: Very well, thirty days, then. That will take it to the 8th of November.

Mr. Knuff, have you anything more to say?

Mr. Knuff: I am just a little bit confused as to what is expected of the Government.

Chief Judge Stephens: You are to file your statement of points and authorities or answer or brief or whatever paper you wish to file. I understood you to say you wished to file a definition of your position in the matter.

Mr. Knuff: We will file a formal pleading.

Chief Judge Stephens: A formal pleading by the 30th of June.

Mr. Knuff: That is right. Does the court expect a brief from us at that time?

Chief Judge Stephens: Well, I suppose that all depends, Mr. Knuff, upon what position you are going to take. I should think you had better file a brief, if you think you need to.

Mr. Knuff: As I say, in order to get this case in the proper posture, possibly we ought to be able to see some of the points and authorities that the other people are going to file so that we could make an objective determination as to our position in the matter. I will do anything the court wants. I just want to be clear as to what.

Chief Judge Stephens: Of course, counsel is entitled to change his position upon receiving new light upon the subject. I think you applied for leave to file your statement of [fol. 1060] position on the 30th.

Mr. Knuff: That is right.

Chief Judge Stephens: If you do that, it would start this other time running sooner.

Mr. Knuff: We will file our position on the 30th.

Chief Judge Stephens: Let me put it this way, Mr. Knuff: If you need further time to file additional brief or statement, you may apply for it and we will grant you what is necessary.

Mr. Knuff: Thank you.

Chief Judge Stephens: One other thing, we had the courtesy during the trial of this case of daily copy of all

that the court reporter took down in the way of the remarks of counsel or the court. Will we have the benefit of that again, gentlemen? With a copy for each judge, please.

Judge Cole suggests that it would be desirable, Mr. Spray, if you can do so, for you to make a definite commitment with reference to not proceeding in these other cases. Would that be possible for you to do either now or later?

Mr. Spray: I have hesitated to do that for the reason I said this morning, but I have certainly heard everything the court has said today. And I intend to guide myself accordingly, but having called upon these other courts and filed the suits, I just had some hesitancy of coming down here and making a commitment about it. But I certainly do not intend to take an action that I think would be disapproved by this court.

[fol. 1061] Chief Judge Stephens: We understand that, but we understand also your reluctance to commit yourself to a program that might possibly develop to be inconsistent with the wishes of the judges in the other jurisdictions, but I think you, in effect, have committed yourself. I do not mean to bind you to this, but I think you have, in effect, committed yourself not to proceed in the other cases until this court has had an opportunity to express itself unless you are required to do so by the action of the judges elsewhere.

Mr. Spray: That is the point.

Chief Judge Stephens: Is that correct?

Mr. Spray: I think that is quite correct, yes, sir.

Chief Judge Stephens: Of course, if action is contemplated elsewhere as the result of the insistence of the judges elsewhere, the gentlemen who represent the petitioners are entitled to apply here for a temporary restraining order, but I think there will be no practical difficulty about that. I should not think that the other judges would insist upon going forward with the case if counsel do not desire to.

Mr. Knuff: My colleagues suggested, Judge Stephens, that, if satisfactory to the court, we will formalize our position by June 30th, and if satisfactory to the court we will file a brief within thirty days after September 8th, after the answer is in, if we feel that a brief is needed.

Chief Judge Stephens: Is there any objection to that?

[fol. 1062] That may be granted.

The court reporters have got this all clear?

Have you, Mr. Watts?

Mr. Watts: Yes.

Chief Judge Stephens: Mr. Rosenman?

Mr. Rosenman: I want to suggest that the court has not set a date for argument. Does the court wish to do that now?

Chief Judge Stephens: It will probably be a little difficult to do that until we consult the clerk of my court and of the Court of Customs and Patents Appeal, but we will try and give counsel—well, we can say now that the case will come on sometime during November. Just what time we will have to leave until a later setting, because of our manifold duties and also the convenience of counsel. You all have local counsel here, have you not, in Washington? Through local counsel we will give counsel notice well in advance, so that you can arrange your other engagements.

Will you see, Mr. Watts, that I do not forget to keep that promise?

Mr. Watts: Yes.

Chief Judge Stephens: Is there anything further from anyone?

If not, you may announce a recess.

(Whereupon, the pre-hearing conference adjourned at 2:25 p.m.)

[fol. 1063] Reporter's Certificate to foregoing transcript omitted in printing.

[fol. 1064] Reporter's Certificate to foregoing transcript omitted in printing.

[fol. 1065] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

against

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

AMENDED ANSWER OF DEFENDANT NATIONAL GYPSUM COMPANY TO COMPLAINT *—(Copy Filed in United States District Court for the District of Columbia—June 25, 1953)

AS TO COUNT I OF THE COMPLAINT:

1. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 1 of Count I of the complaint.

2. Defendant admits the allegations in paragraph 2 of Count I of the complaint.

3. Defendant denies the allegations in paragraph 3 of Count I of the complaint, except that defendant admits it is a corporation incorporated under the laws of the State of Delaware; that plaintiff is making a claim which exceeds, exclusive of interest and costs, the sum of three thousand dollars ($3,000); and that this action is brought in a judicial district in which defendant is a resident within the meaning of Section 1391 of Title 28, U. S. Code. Defendant is with- [fol. 1066] out knowledge or information sufficient to form a belief as to the truth of the allegation that plaintiff is a corporation incorporated under the laws of the State of Illinois.

4. Defendant denies the allegations in paragraph 4 of Count I of the complaint, except that defendant admits that,

* As amended on March 24, 1953.

on October 17, 1929, plaintiff and defendant entered into a purported license agreement as set forth in *Exhibit A* to the complaint, and defendant refers to said license agreement for the exact terms thereof.

5. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 5 of Count I of the complaint, except that defendant admits that, on October 8, 1935, Letters Patent of the U. S. No. 2,017,022, relating to cementitious material, was granted to U. S. Gypsum, as assignee, on an application theretofore filed by Carlisle K. Roos; and that said patent thereafter became Letters Patent under the purported agreement between U. S. Gypsum and National Gypsum of October 17, 1929.

6. Defendant denies the allegations in paragraph 6 of Count I of the complaint, and the defendant refers to the purported license agreement set forth in *Exhibit A* to the complaint for the exact terms thereof.

7. Defendant denies the allegations of paragraph 7 of Count I of the complaint, except that defendant admits that defendant paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit A* to the complaint, for the period from February 1, 1948 to May 15, 1951.

8. Defendant denies the allegations in paragraph 8 of Count I of the complaint.

9. Defendant denies the allegations in paragraph 9 of Count I of the complaint.

10. Defendant denies the allegations in paragraph 10 of Count I of the complaint, except that defendant admits that, [fol. 1067] on or about December 30, 1935, it acquired certain gypsum board plants of Universal, together with a purported license agreement entered into on November 5, 1929, between U. S. Gypsum, as licensor, and Universal and its receivers, as licensee, and that the provisions of said agreement were substantially identical in all material respects with the provisions of the purported license agreement between plaintiff and defendant, dated October 17, 1929, (attached to plaintiff's complaint as *Exhibit A*), for the period from July 8, 1941 to May 15, 1951.

11. Defendant admits that a true copy of said purported Universal license agreement of November 5, 1929, is attached to plaintiff's complaint as *Exhibit B*.

12. Defendant denies the allegations in paragraph 12 of Count 1 of the complaint, except that defendant admits that it paid to plaintiff, commencing July 8, 1941, one percent (1%) of its selling price of gypsum board manufactured and sold by it until February 1, 1948 and that such payments were allocated by defendant in part to the gypsum board manufactured in the plants acquired by defendant from Universal Gypsum and Lime Co.

13. Defendant denies the allegations in paragraph 13 of Count I of the complaint.

14. Defendant denies the allegations in paragraph 14 of Count I of the complaint.

As to Count II of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1, 2, 3, 4, 5 and 6 of Count I of the complaint, with like effect as if fully set forth in Count II of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count II of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit A* to [fol. 1068] the complaint, for the period from February 1, 1948 to May 15, 1951.

3. Defendant denies the allegations in paragraph 3 of Count II of the complaint.

4. Defendant repeats the answers contained in its answer to the allegations in paragraphs 10, 11 and 12 of Count I of the complaint, with like effect as if fully set forth in Count II of the complaint.

5. Defendant denies the allegations in paragraph 5 of Count II of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit B* to the complaint, for the period from February 1, 1948, to May 15, 1951.

6. Defendant repeats the answers contained in its answer

to paragraphs 13 and 14 of Count I of the complaint, with like effect as if fully set forth in Count II of the complaint.

As to Count II of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1, 2 and 3 of Count I of the complaint, with like effect as if fully set forth in Count III of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count III of the complaint, except that defendant admits that, on October 17, 1929, plaintiff and defendant entered into a purported license agreement as set forth in *Exhibit A* to the complaint, and defendant refers to said purported license agreement for the exact terms thereof.

3. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 3 of Count III of the complaint, except that defendant admits that, on October 8, 1935, Letters Patent of the U. S. No. 2,017,022, relating to cementitious material, [fol. 1069] was granted to U. S. Gypsum, as assignee, on an application theretofore filed by Carlisle K. Roos; and that said patent thereafter became Letters Patent under the purported agreement between U. S. Gypsum and National Gypsum of October 17, 1929.

4. Defendant denies the allegations in paragraph 4 of Count III of the complaint, and defendant refers to the license agreement set forth in *Exhibit A* to the complaint for the exact terms thereof.

5. Defendant denies the allegations in paragraph 5 of Count III of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the license agreement set forth in *Exhibit A* to the complaint, for the period from February 1, 1948 to May 15, 1951, and that, after February 1, 1948, defendant took no action to comply with or enforce any of the provisions of said agreement, and defendant further admits that plaintiff, after February 1, 1948, took no action to enforce any of the provisions of said agreement against defendant until January 28, 1953, when it instituted the present proceeding.

5a. Defendant repeats the answers contained in its answer to the allegations in paragraphs 10 and 12 of Count

I of the complaint, with like effect as if fully set forth in Count III of the complaint.

5b. Defendant denies the allegations in paragraph 5b of Count III of the complaint, except that defendant admits that it paid no license fees or royalties allegedly due under the purported license agreement set forth in *Exhibit B* to the complaint, for the period from February 1, 1948 to May 15, 1951, and that, after February 1, 1948, defendant took no action to comply with or enforce any of the provisions of said agreement, and defendant further admits that plaintiff, after February 1, 1948, took no action to enforce any of the provisions of said agreement until January 28, 1953, when it instituted the present proceeding.

[fol. 1070] 6. Defendant denies the allegations in paragraph 6 of Count III of plaintiff's complaint.

7. Defendant denies the allegations in paragraph 7 of Count III of plaintiff's complaint.

8. Defendant denies the allegations in paragraph 8 of Count III of plaintiff's complaint.

As to Count IV of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1, 2 and 3 of Count I of the complaint, with like effect as if fully set forth in Count IV of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count IV of the complaint.

As to Count V of the Complaint:

1. Defendant repeats the answers contained in its answer to the allegations in paragraphs 1 and 2 of Count I of the complaint, with like effect as if fully set forth in Count V of the complaint.

2. Defendant denies the allegations in paragraph 2 of Count V of the complaint, except that defendant admits that this is a civil action based upon United States Letters Patent No. 2,017,022, and that this action is being brought in a judicial district where defendant has a regular and established place of business within the meaning of Section 1400 of Title 28, U. S. Code.

3. Defendant is without knowledge or information sufficient to form a belief as to the truth of the allegations in paragraph 3 of Count V of the complaint; except that defendant admits that, on October 8, 1935, Letters Patent of the U. S. No. 2,017,022, relating to cemetitious material, was granted to U. S. Gypsum, as assignee, on an application theretofore filed by Carlisle K. Roos.

[fol. 1071] 4. Defendant denies the allegations in paragraph 4 of Count V of the complaint.

5. Defendant denies the allegations in paragraph 5 of Count V of the Complaint.

6. Defendant denies the allegations in paragraph 6 of Count V of the complaint.

Defendant denies every allegation in Counts I to V inclusive of the complaint not specifically admitted or denied in this amended answer.

For a First Defense to Each of the Counts of the Complaint:

1. On August 15, 1940, the United States of America filed its complaint, "*United States of America* v. *United States Gypsum Co. et al.*, Civil Action No. 8017," in the United States District Court for the District of Columbia, against United States Gypsum Company, National Gypsum Company, five other manufacturers of gypsum products, and others, charging violations of the Sherman Act (15 U. S. C. 1, 2 and 3). The complaint alleged that USG and the six other manufacturers had entered into, and were engaged in, an unlawful combination which controlled the manufacture, distribution and selling prices of gypsum products, and had effectuated the control by means of substantially uniform patent license agreements between U. S. Gypsum and the manufacturing defendants, including the purported license agreement between U. S. Gypsum and National, dated October 17, 1929, and the purported license agreement between U. S. Gypsum and Universal, dated November 5, 1929, assigned to National on or about December 30, 1935. Said purported agreements are attached to plaintiff's complaint herein as *Exhibits A and B.*

[fol. 1072] 2. On March 8, 1948, the Supreme Court of the United States held that the license agreements between U. S. Gypsum and its manufacturing licensees, including the said license agreements between U. S. Gypsum and National, were unlawful because under such licenses "the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized" (*U. S.* v. *United States Gypsum Company et al.*, 333 U. S. 364, 400).

3. After remand of the antitrust suit to the District Court, the Government moved for summary judgment, which the District Court granted, and then entered judgment in conformity therewith on November 7, 1949. The Government and defendant U. S. Gypsum and its associated individual defendants thereafter appealed to the Supreme Court, and said judgment was stayed pending these appeals. U. S. Gypsum appealed on the ground that summary judgment had been entered in denial of its right to present direct evidence, and asserted that its offer of proof would establish that its activities had been entirely lawful. The Government appealed on the ground that the District Court decree was inadequate to cure the ill effects of the illegal conduct of defendants.

4. On May 29, 1950, the appeal of U. S. Gypsum and its associated individual defendants was dismissed by the Supreme Court (339 U. S. 959). On the Government's appeal, the Supreme Court held, on November 27, 1950, that the District Court's decree was inadequate to "cure the ill effects of the illegal conduct" (340 U. S. 76, 88), and ordered that the District Court modify its decree to broaden it in several respects.

5. The United States District Court for the District of Columbia modified its prior decree in accordance with the opinion of the Supreme Court on November 27, 1950, and entered a final decree on May 15, 1951. Said final decree, [fol. 1073] attached hereto as *Exhibit A*, provided *inter alia* as follows:

"Article II.

"5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant

United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:

"Agreement dated October 17, 1929, between United States Gypsum Company, as licensor, and National Gypsum Company, as licensee;"

* * * * *

"Agreement dated November 5, 1929, between United States Gypsum Company, as licensor, and Universal Gypsum and Lime Company (National Gypsum Company, as Assignee), as licensee;"

* * * * *

and any supplement or amendment to any of said patent license agreement."

"Article IV.

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void."

6. The final decree of the District Court of Columbia also directed U. S. Gypsum to license its gypsum patents, as therein defined, to all applicants at reasonable royalties, under certain terms and conditions provided in said final decree. Roos Patent No. 2,017,022 was included among those patents subject to compulsory licensing by said final decree.

7. Roos Patent No. 2,017,022 was licensed under each of the uniform, unlawful license agreements between U. S. Gypsum and its licensees, and was one of the principal patents used to effectuate the unlawful conspiracy. This misuse of said patent destroyed its enforceability until [fol. 1074] such time as the consequences of such misuse were fully dissipated.

8. The proceedings in *United States* v. *United States Gypsum Company et al.*, Civil Action No. 8017, the Supreme Court opinions therein, and the final decree of May 15, 1951 establish, as a matter of law, U. S. Gypsum's misuse of all patents licensed under its uniform, unlawful license

agreements, including Roos Patent No. 2,017,022, until at least May 15, 1951, and U. S. Gypsum is barred from enforcing its misused patents prior to said date by contract claim or by infringement claim, or by any claim under any other legal theory.

For a Second Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its second defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The first Supreme Court opinion in *United States* v. *United States Gypsum Company et al.*, 333 U. S. 364, establishes, as a matter of law, that U. S. Gypsum misused the patents licensed under its uniform, unlawful agreements, including Roos Patent No. 2,017,022, until at least March 8, 1948, the date of said opinion. U. S. Gypsum continued thereafter to misuse the patents licensed under said uniform, unlawful agreements, including Roos Patent No. 2,017,022, until at least May 15, 1951, and the consequences of such misuse were not fully dissipated until at least May 15, 1951, by reason of the following:

A. U. S. Gypsum failed and refused, until at least May 15, 1951, to take such affirmative action as would dissipate fully the unlawful consequences of its illegal acts and thereby to purge its misused patents, including Roos Patent No. 2,017,022.

[fol. 1075] B. U. S. Gypsum did not at any time, until at least May 15, 1951, abandon any of the illegal patent practices charged in the Government's complaint and proved at the trial.

C. U. S. Gypsum's patent licensing, sales, pricing and distribution policies were conducted at all times, until at least May 15, 1951, in accordance with the terms of the unlawful licenses.

D. U. S. Gypsum continued until at least May 15, 1951 to collect royalties from some of its licensees in accordance with the terms of their unlawful licenses.

E. U. S. Gypsum continued until at least May 15, 1951

to collect royalties on unpatented as well as patented gypsum products.

F. U. S. Gypsum continued until at least May 15, 1951 to sell and distribute its gypsum products under the same terms and conditions as those prescribed in its unlawful licenses.

G. U. S. Gypsum continued, until at least May 15, 1951, to refrain from selling gypsum products to jobbers.

H. U. S. Gypsum failed and refused, until at least May 15, 1951, to grant licenses under its misused patents to all applicants on lawful and unrestricted terms and conditions.

I. U. S. Gypsum has continued at all times to assert that its unlawful patent license agreements with its manufacturing licensees were legal in every respect.

3. By reason of the foregoing, U. S. Gypsum is barred from enforcing its misused patents, including Roos Patent No. 2,017,022, prior to May 15, 1951, by contract claim or by infringement claim, or by any claim under any other legal theory.

[fol. 1076] For a Third Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its third defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. Since the filing of the instant complaint on January 28, 1953, U. S. Gypsum has instituted actions in this and other Federal district courts to enforce several of the above unlawful licenses made with its licensees, notwithstanding that each said license has been held to be unlawful by the Supreme Court on two occasions, and that each said license is "adjudged unlawful under the antitrust laws of the United States and illegal, null and void" by Article IV of the final decree of the District Court of Columbia in *United States* v. *United States Gypsum Company et al.* In each of these actions royalties are sought for use of Patent No. 2,017,022. The attempt, by these actions, to collect royalties for the use of Patent No. 2,017,022 by enforcing the above unlawful agreements is *per se* a misuse of said patent, and U. S. Gypsum is therefore barred from enforcement of said

patent by contract claim or by infringement claim, or by any claim under any other legal theory.

For a Fourth Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its fourth defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The question of U. S. Gypsum's right to enforce its misused patents, including Roos Patent No. 2,017,022, was a material issue before the United States District Court for the District of Columbia in *United States* v. *United States Gypsum Company, et al.* The final decree in that cause pre- [fol. 1077] cludes U. S. Gypsum from enforcing its misused patents, including Roos Patent No. 2,017,022, for any period prior to May 15, 1951, under the doctrines of collateral estoppel by judgment and *res adjudicata.*

For a Fifth Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its fifth defense, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. U. S. Gypsum's suits in this and other Federal district courts constitute an attempt to obtain the royalties promised under its uniform, unlawful licenses, or the equivalent moneys in infringement damages. However, the final decree of the District Court of Columbia, in adjudicating said unlawful licenses as null and void, barred U. S. Gypsum from enforcing in any manner, directly or indirectly, or under any legal theory, any provision of said unlawful licenses. Thus, the instant complaint is a circumvention of the final decree of the District Court of Columbia, and should be dismissed.

For a Sixth Defense to Each of the Counts of the Complaint:

1. Defendant repeats and realleges, as part of its sixth defense, each and every allegation in paragraphs 1 to 7

of its first defense, with the same effect as if fully set forth herein.

2. Roos Patent No. 2,017,022 is invalid and void.

For a Seventh Defense to Each of the Counts of the Complaint:

1. Defendant alleges that each of the Counts I, II, III, IV and V of the complaint fails to state a claim upon which relief may be granted.

[fol. 1078] For an Eighth Defense to Count I of the Complaint:

1. Defendant repeats and realleges, as part of its eighth defense to Count I of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The agreements between U. S. Gypsum and National, dated October 17, 1929, and between U. S. Gypsum and Universal, dated November 5, 1929, and thereafter assigned to National, are illegal, null and void and were so held in two opinions of the Supreme Court in *United States* v. *United States Gypsum Company et al.* (333 U. S. 364, 340 U. S. 76), and in said final decree of the United States District Court for the District of Columbia.

For an Eighth Defense to Counts II and III of the Complaint:

1. Defendant repeats and realleges, as part of its eighth defense to Counts II and III of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. Each of the patent license agreements alleged to have been made on or about February 1, 1948 between U. S. Gypsum and National in Counts II and III of the complaint are illegal, null and void, and were so held in said final decree of the United States District Court for the District of Columbia. Each of said agreements constitutes "a supplement or amendment" to the patent license agreements listed in Article II of said final decree, and were

therefore adjudicated unlawful, null and void under Article IV of said final decree.

[fol. 1079] For a Ninth Defense to Counts II and III of the Complaint:

1. Defendant repeats and realleges, as part of its ninth defense to Counts II and III of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

2. The enforcement of the patent license agreements alleged to have been made on or about February 1, 1948 between U. S. Gypsum and National in Counts II and III of plaintiff's complaint—which defendant denies having made—would constitute a fraud upon the United States District Court for the District of Columbia and upon the Government. Articles II and IV of the final decree of the District Court of Columbia of May 15, 1951 are identical with the same paragraphs in the earlier District Court's decree of November 7, 1949. In the hearing on June 13, 1949, before the District Court of Columbia on the formulation of the November 7, 1949 decree, counsel for the Government stated:

> "Well the reason we use the broad language that we did, was: We didn't know what licenses might have been entered into subsequent to the last hearing on this case.
>
> "If USG will certify to this court that they have not any additional licenses, other than the ones that they refer to in their objection; and, if each licensee, in turn, will certify that they have not any other licenses, other than what is set forth in the objection . . ., we have no objection at all to having the provisions of this decree specify the licenses that USG mentions in their memorandum." (Tr. 8070)

In reply thereto, counsel for U. S. Gypsum stated:

> "Now, with reference to that list of patent license agreements, counsel for plaintiff has stated here that it is entirely agreeable to him that that list of licensees be incorporated provided that it can be certified that

those are the only agreements in effect between the parties.

[fol. 1080] "In attempting to deal with that situation specifically, we think that to avoid any possibility that there may be some amendments or supplements to those agreements which thus far have not come to our attention in connection with it, at the end of Article II of the form of decree attached to the defendants' memorandum these words might be added: • • • 'And any supplement or amendment to any of said patent license agreements.' With that addition, the list is obviously all-inclusive, and the certification requested may properly be made." (Tr. 8119)

U. S. Gypsum never thereafter brought to the attention of the United States District Court for the District of Columbia or to the Government the existence of the patent license agreements alleged in Counts II and III of the instant complaint. The enforcement by this Court of such alleged patent license agreements would enable U. S. Gypsum to perpetrate a fraud on the United States District Court for the District of Columbia and on the Government.

For a Tenth Defense to Counts II and III of the Complaint:

The enforcement of the patent license agreements alleged to have been made on or about February 1, 1948 between U. S. Gypsum and National in Counts II and III of plaintiff's complaint—which defendant denies having made—is barred by the statute of frauds, because said contracts were not in writing and were not to be performed within one year.

For an Eighth Defense to Count V of the Complaint:

1. Defendant repeats and realleges, as part of its eighth defense to Count V of the complaint, each and every allegation in paragraphs 1 to 7 of its first defense, with the same effect as if fully set forth herein.

[fol. 1081] 2. By the terms of the purported agreements of October 17, 1929 and November 5, 1929, the licenses granted therein were to continue unless terminated by a written notice of intention to terminate by either party, upon any default of the other in the obligations of the pur-

ported agreements, and a failure to cure such default within thirty days.

3. Although National did not pay royalties under said agreements to U. S. Gypsum for the period from February, 1948 to May 15, 1951, U. S. Gypsum did not exercise its power to terminate the purported agreements in the manner set forth therein. U. S. Gypsum at all times, until May 15, 1951, elected to treat National as an authorized user of its misused patents, including Roos Patent No. 2,017,022, and U. S. Gypsum is therefore estopped from claiming that defendant infringed its misused patents, including Roos Patent No. 2,017,022 for any period of time prior to May 15, 1951.

* * * * * * *

Defendant further alleges and shows to this Honorable Court:

The final decree of May 15, 1951 of the District Court of Columbia in *United States* v. *United States Gypsum Company et al.*, Civil Action No. 8017, provides in Article X thereof:

> "Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

On March 25, 1953, defendant petitioned the District Court of Columbia in *United States* v. *United States Gypsum Company et al.*, (a true copy of which is attached [fol. 1082] hereto as Exhibit B) for an order directing U. S. Gypsum to discontinue the within action against National, and for an injunction against maintaining any action for payment for use of any misused patent prior to May 15, 1951.

Wherefore, defendant prays:

1. That plaintiff's complaint herein be dismissed and that defendant be awarded its costs and reasonable attorneys' fees.
2. That this Court stay all proceedings herein until the determination of the issues raised in defendant's petition to the United States District Court for the District of Columbia.
3. That defendant be granted such further and general relief as may be proper.

Dated: May 28, 1953.

Finck & Huber, Esqs., 804 Liberty Bank Building, Buffalo 2, New York; Rosenman Goldmark Colin & Kaye, Esqs., 575 Madison Avenue, New York 22, New York; O'Connor, Thomas, McDermott & Wright, Esqs., 609 Bank and Insurance Building, Dubuque, Iowa. By: (S.) E. Marshall Thomas, Attorneys for Defendant.

[fol. 1083] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 568

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

vs.

CERTAIN-TEED PRODUCTS CORPORATION, a Maryland Corporation, Defendant

ANSWER OF CERTAIN-TEED PRODUCTS CORPORATION—Copy filed in United States District Court for the District of Columbia June 26, 1953

Now comes the defendant, *Certain-teed Products Corporation* (hereinafter referred to as "Certain-teed"), and

for answer to the complaint of the plaintiff United States Gypsum Company (hereinafter referred to as "U. S. Gypsum"), says:

Count I

1. Certain-teed admits the allegations of Paragraphs 1 and 2.

2. Certain-teed denies that this Court has jurisdiction of this cause, as alleged in Paragraph 3, by reason of the matters more fully hereinafter set out in Paragraphs 3, 4 and 5 hereof.

3. Certain-teed admits the allegations of Paragraphs 4, 5 and 6, but says that in addition to the provisions of the license agreement alleged in said Paragraphs, said license agreement provided as follows:

> [fol. 1084] (a) Certain-teed agreed to pay to U. S. Gypsum an amount equivalent to 1% of its selling price on all plaster board and gypsum wall board of every kind manufactured and sold by it to the date of the expiration of the last expiring patent issued upon certain applications then pending in the United States Patent Office, including application filed by Carlisle K. Roos, which application was granted on October 8, 1935, by the issuance of United States Patent No. 2017022 to U. S. Gypsum, as assignee of said Roos application.
>
> (b) Certain-teed agreed not to sell patented wall board to manufacturing distributors unless U. S. Gypsum gave its consent as to each purchaser.
>
> (c) U. S. Gypsum reserved the right to fix the minimum price at which Certain-teed sold wall board embodying U. S. Gypsum's patents.
>
> (d) The right, license and privilege granted by the license was indivisible and non-exclusive.
>
> (e) U. S. Gypsum was granted the right at all reasonable times to inspect the books of account and records of Certain-teed, and Certain-teed agreed to keep separate, full and accurate books of account and record showing the exact quantity of plaster board and gypsum wall board manufactured or sold by it.

4. Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that on August 15, 1940, the United States of America, as plaintiff in the case entitled *"United States of America* v. *United States Gypsum Company, et al."* Civil Action No. 8017 in the District Court for the District of Columbia, filed its complaint against U. S. Gypsum, [fol. 1085] Certain-teed and others, charging violations of the Sherman Act. The complaint alleged that defendants were engaged in an unlawful combination to fix prices on patented gypsum board and unpatented gypsum products and to eliminate competition in the gypsum board industry and that such combination was effectuated by substantially uniform patent license agreements between U. S. Gypsum and the other defendants manufacturing such products, including the license agreement dated October 15, 1929, between U. S. Gypsum and Certain-teed.

That on March 8, 1948, the Supreme Court of the United States reversed the judgment of the District Court for the District of Columbia dismissing plaintiff's complaint, 333 U. S. 364, and held *inter alia* as follows:

> (a) From 1929, in which year U. S. Gypsum licensed all but two companies manufacturing gypsum board in substantially identical terms, U. S. Gypsum maintained rigid control over the price and terms of sale of virtually all gypsum board. Since 1937 the control was complete.
>
> (b) Under bulletins issued by U. S. Gypsum the gypsum industry accepted directions defining in minute detail both the prices and terms of sale of patented gypsum board.
>
> (c) Regardless of motive, the Sherman Act bars patent exploitation of the kind that was here attempted. The license agreements and the bulletins establish the conspiracy of the licensor and licensees to violate the Sherman Act.
>
> (d) Patents grant no privilege to their owners of organizing the use of those patents to monopolize [fol. 1086] an industry through price control, through royalties for the patents drawn from patent-free industry products, and through regulation of distribu-

tion. Here patents have been put to such uses as to collide with the Sherman Act's protection of the public from evil consequences.

(e) The licensor was to fix minimum prices binding both on itself and its licensees; the royalty was to be measured by a percentage of the value of all gypsum products, patented or unpatented; the license could not be transferred without the licensor's consent; the licensee opened its books of accounts to the licensor; the licensee was protected against competition with more favorable licenses and there was a cancellation clause for failure to live up to the arrangements.

(f) The *General Electric* case gives no support for a patentee, acting in concert with all members of an industry, to issue substantially identical licenses to all members of the industry under the terms of which the industry is completely regimented, the production of competitive unpatented products suppressed, a class of distributors squeezed out, and prices on unpatented products stabilized.

(g) By the record now presented, violation of the Sherman Act is clear.

After remand to the District Court for the District of Columbia, the United States of America, plaintiff, moved for sumary judgment, which that Court entered on November 7, 1949. Said plaintiff, United States of America, and defendant, U. S. Gypsum, appealed to the Supreme Court. The appeal of the latter was dismissed by the Su-[fol. 1087] preme Court, 339 U. S. 960. In its order of dismissal, the Supreme Court affirmed Article III of the decree of the District Court for the District of Columbia of November 7, 1949, stating:

> "'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain, and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Antitrust Act,' is affirmed."

The Supreme Court, pending its further order, also enjoined the corporate defendants from

> "(1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof * * *."

On appeal of the United States of America the Supreme Court, 340 U. S. 76, enlarged the provisions of the decree of the District Court for the District of Columbia entered November 7, 1949, and held

> (a) Price fixing licenses made in knowing concert by standardized price requirements violated the Sherman Act by their very existence.
>
> (b) A trial court, upon a finding of a conspiracy in restraint of trade and a monopoly, has the duty to compel action by the conspirators that will, so far as practicable, cure the effects of the illegal conduct and assure the public freedom from its continuance. The conspirators should, so far as practicable, be denied future benefits from forbidden conduct.
>
> (c) The District Court's decree was inadequate to cure the ill effects of the illegal conduct.

[fol. 1088] On May 15, 1951, pursuant to said second opinion of the Supreme Court, the District Court for the District of Columbia modified its prior decree in accordance therewith and entered its final decree, copy of which is attached hereto and marked "Exhibit A", containing the provisions, among other things, as follows:

"Article II

> "5. 'Patent Licenses' shall mean the patent license agreements which were in effect between defendant United States Gypsum Company and each of the other defendant companies at the time the complaint herein was filed and described in said complaint as follows:
>
> "Agreement dated October 15, 1929, between United States Gypsum Company, as licensor, and Certainteed Products Corporation, as licensee;"
>
> "* * * *

and any supplement or amendment to any of said patent license agreements."

"Article IV

"Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void."

"Article X

"Jurisdiction of this cause, and of the parties hereto, is retained by the Court for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

5. Certain-teed admits the allegations of Paragraph 7 that it failed and refused to pay any license fees or royalties to U. S. Gypsum under said license agreement for the month of April, 1948, and continuing to May 15, 1951, but [fol. 1089] denies that during the whole of said period it continued under its said license to manufacture and sell gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2017022.

6. Certain-teed denies the allegations of Paragraphs 8 and 9.

Further answering the allegations of Paragraphs 8 and 9, Certain-teed alleges that the final decree of the District Court for the District of Columbia, entered pursuant to the said opinions of the Supreme Court, declared and held the license agreement sued upon herein to be unlawful under the anti-trust laws of the United States and illegal, null and void. By reason thereof, U. S. Gypsum is barred from enforcing in this suit said illegal license agreement, and this Court should declare and hold said illegal license agreement to be unenforceable.

Further answering the allegations of Count I of U. S.

Gypsum's complaint, Certain-teed alleges that by said final decree of the District Court for the District of Columbia, entered pursuant to said opinions and directions of the Supreme Court, it was adjudicated and determined that the license agreement sued upon herein was illegal, null and void, and thereby and thereupon said license agreement became and was cancelled. By reason of its unlawful conduct, found, determined and established by the Supreme Court and by the District Court for the District of Columbia, U. S. Gypsum was found guilty of participation in an unlawful conspiracy in violation of the Sherman Act and, therefore, is barred from enforcing the license agreement upon which U. S. Gypsum seeks to recover in Count I of its complaint.

Count II.

[fol. 1090] 1. Certain-teed repeats and alleges as its answer to Paragraph 1 each and all of the allegations contained in Paragraphs 1, 2, 3 and 4 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed denies the allegations of Paragraphs 2 and 3.

Further answering the allegations of Paragraphs 2 and 3, Certain-teed alleges that in and by the final decree entered by the District Court for the District of Columbia on May 15, 1951, it was provided, among other things, in Article II thereof, that "patent licenses," as defined thereunder, mean the patent license agreements which were in effect between U. S. Gypsum and each of the other defendant companies, including Certain-teed, at the time the complaint was filed by the United States of America, and also "any supplement or amendment to any of said patent license agreements."

Said final decree of the District Court for the District of Columbia, in Article IV thereof, adjudged each of the license agreements listed in Article II thereof, including any amendment or supplement thereto, to be unlawful under the anti-trust laws of the United States and illegal, null and void; that said Paragraphs 2 and 3 constitute a claim under said illegal, null and void license agreement, as supplemented or amended, and is, therefore, in contravention of the final decree of the District Court for the District of

Columbia, and by reason thereof U. S. Gypsum's claim for enforcement of said license agreement, as amended and supplemented, is barred.

[fol. 1091] Further answering the allegations of Paragraphs 2 and 3, Certain-teed alleges that the final decree of the District Court for the District of Columbia, entered pursuant to said opinions of the Supreme Court, declared and held the license agreements, as supplemented or amended, to be unlawful under the anti-trust laws of the United States and illegal, null and void. By reason thereof U. S. Gypsum is barred from enforcing in this suit said illegal license agreement, as supplemented or amended, and this Court should declare and hold said license agreement, as so amended or supplemented, to be unenforceable.

Count III.

1. Certain-teed repeats and alleges as answer to Paragraphs 1 each and all of the allegations contained in Paragraphs 1 and 2 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed admits the allegations of Paragraphs 2, 3 and 4.

Further answering said Paragraphs 2, 3 and 4, plaintiff repeats and alleges as part of its answer thereto each and all of the allegations contained in Paragraphs 3 and 4 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

3. Certain-teed admits that, as alleged in Paragraph 5, it repudiated its license agreement with U. S. Gypsum and discontinued the payment of license fees or royalties payable or to be paid thereunder and refused to be bound by any of the provisions thereof, and says that it did so in conformity with and pursuant to the adjudication and deter- [fol. 1092] mination of the Supreme Court, which held said license agreement to be in violation of the Sherman Act and illegal, null and void. Certain-teed denies the remaining allegations of Paragraph 5 and denies the allegations of Paragraph 6.

Further answering Paragraph 6, Certain-teed repeats and alleges as answer thereto, each and all of the allegations

contained in Paragraph 2 of its answer to Count II of the complaint, with like effect as if herein fully set forth.

4. Certain-teed denies the allegations of Paragraphs 7 and 8.

Count IV.

1. Certain-teed repeats and alleges as answer to Paragraph 1 each and all of the allegations contained in Paragraphs 1 and 2 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed denies the allegations of Paragraph 2.

Further answering the allegations of Paragraph 2, Certain-teed alleges that by the proceedings heretofore had in the District Court for the District of Columbia and the Supreme Court, it has been found, adjudicated and determined that plaintiff through the licensing agreements hereinbefore referred to and by the use of its patents, had entered into an unlawful conspiracy in restraint of trade in violation of the Sherman Act, by which it had control over the prices at which gypsum board and other gypsum products were sold and the persons to whom sales of such [fol. 1093] products might be made; that the decisions of the Supreme Court and the District Court for the District of Columbia bar the plaintiff from any recovery for the use of the processes or devices embodied in Patent No. 2017022 on the theory of *quantum meruit* or on any other legal theory; and that by the provisions of Count IV of its complaint, U. S. Gypsum seeks to recover the reasonable value of the use of its patents which were used as an instrumentality and means for perpetrating an unlawful conspiracy and restraint of interstate commerce in violation of the Sherman Act and that the claim set forth in Count IV constitutes an attempt to recover benefits directly arising from and based upon the unlawful conspiracy and unlawful conduct of plaintiff in entering into price-fixing contracts and other restraints upon interstate trade and interstate commerce in violation of the Sherman Act.

Further answering the allegations of Paragraph 2, Certain-teed alleges that by the decree entered in the cause hereinbefore referred to in the District Court for the District of Columbia, it was adjudicated and determined that U. S. Gypsum had used its patents, including U. S. Patent

No. 2017022, as an instrumentality and means of restraining trade and commerce in gypsum board and allied gypsum products in violation of the Sherman Act; and that the decree of said District Court constitutes an adjudication and determination that U. S. Gypsum may not recover for the alleged use of the processes or devices referred to and covered by the said patents, including Patent No. 2017022.

Further answering the allegations of Paragraph 2, Certain-teed alleges that if U. S. Gypsum has any claim or [fol. 1094] cause of action against Certain-teed, it can only be asserted in the District Court in and for the District of Columbia by way of modification of the decree of said court hereinbefore referred to, and that this court cannot award U. S. Gypsum any relief by way of *quantum meruit* recovery or otherwise in the face of the adjudication made by the Supreme Court and the District Court for the District of Columbia in the proceeding above referred to.

Count V.

1. Certain-teed repeats and alleges as its answer to Paragraph 1 the allegations contained in Paragraphs 1 and 2 of its answer to Count I of the complaint, with like effect as if herein fully set forth.

2. Certain-teed denies the allegations of Paragraph 2 and repeats and alleges as part of its answer to Paragraph 2, each and all of the allegations contained in Paragraphs 3, 4 and 5 of its answer to Count I.

3. Certain-teed admits the allegations of Paragraph 3.

4. Certain-teed denies the allegations of Paragraphs 4, 5 and 6.

Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that said Patent No. 2017022 is invalid and void.

Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that as a matter of law the final decree of the District Court for the District of Columbia bars the claim of U. S. Gypsum for infringement prior to the entry of said final decree. By said decree it was finally determined that U. S. Gypsum unlawfully used said Patent No. 2017022.

[fol. 1095] The final decree in the cause above referred to constitutes an adjudication by the Court that U. S. Gypsum had unlawfully used its said Patent No. 2017022 and that

such unlawful conduct bars recovery by it for any infringement of said patent.

5. Further answering Paragraphs 4, 5 and 6, Certain-teed alleges that U. S. Gypsum may not recover for infringement of Patent No. 2017022 from Certain-teed by reason of the fact that it used said patent unlawfully and in violation of the provisions of the Sherman Act to restrain trade and commerce in gypsum board and other gypsum products for a period of many years, and that said unlawful conduct was found, established and determined by the decisions of the courts hereinbefore referred to. Prior to the entry to said final decree, U. S. Gypsum did not notify Certain-teed or any other licensees or other gypsum manufacturers that it claimed infringement of its Patent No. 2017022 during the period of said litigation; by reason of all of the foregoing U. S. Gypsum may not now assert that it is entitled to recover from Certain-teed for infringement.

Further answering Counts I to V, inclusive, of U. S. Gypsum's complaint, Certain-teed says:

[fol. 1096] 1. Certain-teed repeats and alleges all of the allegations contained in Paragraphs 2, 3, 4, 5, and 6 of its answer to Count I, Paragraph 2 of its answer to Count II, Paragraphs 2 and 3 of its answer to Count II, Paragraph 2 of its answer to Count IV, and Paragraphs 4 and 5 of its answer to Count V, with like effect as if herein fully set forth.

2. In and by its complaint herein, U. S. Gypsum did not allege and failed to advise this Court of the proceedings in the District Court for the District of Columbia, the opinions handed down by the Supreme Court of the United States on appeals from the decrees entered by the District Court for the District of Columbia and the final decree entered by that Court on May 15, 1951, all of which opinions and decrees are heretofore more fully described in this answer.

3. U. S. Gypsum, in filing its complaint in this Court, despite the entry of said final decree in the District Court for the District of Columbia, acted in violation of the terms of said decree and stands in contempt of that Court. The complaint filed herein is an attempt to circumvent said final decree and, in any event, that relief sought in this

action by U. S. Gypsum, if granted, would be in conflict with the decree of the United States District Court for the District of Columbia.

[fol. 1097] 4. The United States of America was the plaintiff in the anti-trust action instituted in said Court and was necessarily a party to the final decree entered by said Court. By reason thereof the United States of America is a necessary and indispensable party to the action pending in this Court, and therefore it cannot be maintained without the joinder of the United States of America as a party thereto.

5. Certain-teed has heretofore filed in the District Court for the District of Columbia its petition for enforcement of compliance by U. S. Gypsum with the final decree of that Court entered on May 15, 1951, and for an order temporarily and permanently enjoining U. S. Gypsum from further prosecuting this action, from asserting any claim against Certain-teed, for payment for the use of said misused Patent No. 2017022, from instituting or threatening to institute, or maintaining or continuing action for payment for the use of any misused patent for any period prior to May 15, 1951, and that U. S. Gypsum be directed to discontinue and dismiss with prejudice to it this action, which Petition is attached hereto as "Exhibit B".

U. S. Gypsum has also filed an action in this Court, identified herein as Clerk's No. 564, against National Gypsum Company, which action, except for names, dates and amounts, is substantially the same as this action, and which prays for the same relief. National Gypsum Company has also heretofore filed its petition in the District Court for the District of Columbia for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of that Court entered on May 15, 1951, and for injunctive relief against U. S. Gypsum similar to that prayed for in said petition filed by Certain-teed. The said petitions of Certain-teed and National Gypsum [fol. 1098] Company are pending and undetermined in the District Court for the District of Columbia, because the Chief Judge of that Court has not yet been able to assemble a statutory three-judge court which must consider and pass upon said petitions.

6. The District Court for the District of Columbia has

paramount jurisdiction over the matters involved in this suit, and the suit filed by U. S. Gypsum in this Court should be dismissed because it is in violation of said paramount jurisdiction and constitutes an attempt to circumvent and avoid it. In effect, the suit filed herein by U. S. Gypsum is an attempt to modify the decree of the District Court for the District of Columbia, which Court has paramount jurisdiction of the matters here involved, and, therefore, this Court should dismiss U. S. Gypsum's complaint.

Wherefore, defendant, Certain-teed, prays as follows:

1. That this Court find, decree, establish, determine and declare that the license agreement dated October 15, 1929, between U. S. Gypsum and Certain-teed, has been found and adjudicated to be illegal, null and void; that by reason of the said proceedings heretofore had in the District Court for the District of Columbia and in the Supreme Court, that this Court find, determine and declare that U. S. Gypsum is barred from suing upon said licensing agreements or any of them; that U. S. Gypsum may not, under the guise of *quantum meruit* or claim for infringement claim recovery from Certain-teed of any sums for the use of patents referred to in said agreement, including Patent No. 2017022. [fol. 1099] 2. That the Court decree that said license agreement was not amended or supplemented by agreement between Certain-teed and U. S. Gypsum; that if the Court holds that said license agreement was amended or supplemented, as alleged by U. S. Gypsum, that the license agreement as so amended or supplemented be held to be illegal, null and void, and unenforceable, and that U. S. Gypsum be barred from enforcing the same.

3. That the Court decree that U. S. Gypsum be barred from recovering under the rule of *quantum meruit,* and that the Court decree that Certain-teed has not infringed Patent No. 2017022; that, in the alternative, if the Court finds that Certain-teed has infringed said Patent No. 2017022, that the Court decree that by reason of U. S. Gypsum's misuse thereof, no royalty or license fee can be recovered thereon prior to the entry of the final decree of May 15, 1951, by the District Court for the District of Columbia.

4. That the Court decree that U. S. Gypsum is barred and prevented from maintaining its action in this Court or, in the alternative (a) that the District Court for the District of Columbia has paramount jurisdiction over the matters in issue herein and, therefore, U. S. Gypsum's complaint should be dismissed with prejudice or, in the alternative (b) this Court should not lend its aid to the enforcement of U. S. Gypsum's claim upon its illegal license agreement, or for the use of processes or devices or product embodied in said misused patent No. 2017022 on the theory of *quantum meruit* or any other theory, and this Court should decree and hold the claims asserted by U. S. Gypsum in its complaint to be unenforceable.

[fol. 1100] 5. That the complaint be dismissed, and that Certain-teed have judgment against the plaintiff for its costs wrongfully sustained.

(S) Herbert W. Hirsh, Norman A. Miller, Clausen, Hirsh & Miller; A. B. Howland; Gamble, Read, Howland, Gamble & Riepe; Dwight G. Rider, Attorneys for Defendant.

Clausen, Hirsh & Miller, 135 South LaSalle Street, Chicago 3, Illinois; Gamble, Read, Howland, Gamble & Riepe, 500 Bankers Trust Building, Des Moines 9, Iowa; Rider & Bastian, 206-209 State Bank Building, Fort Dodge, Iowa.

[fol. 1101] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

[Title omitted]

PETITION OF UNITED STATES FOR ORDERS OR DIRECTIONS FOR THE CONSTRUCTION, CARRYING OUT OR ENFORCEMENT OF THE FINAL DECREE OF MAY 15, 1951—Filed June 30, 1953

Comes now the United States of America and respectfully shows as follows:

1. Petitioner, United States, is plaintiff in the above-entitled action. United States Gypsum Company (USG), National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Ebsary Gypsum Company, Inc. (Ebsary), and Newark Plaster Company (Newark) are all defendants in the above-entitled action.

2. On May 15, 1951, this Court entered its final decree in the above-entitled action. Article IV of said decree "adjudged unlawful under the anti-trust laws of the United States and illegal, null and void" each of the license agreements listed in Article II of the decree. By Article X of the decree, this Court retained jurisdiction of the cause [fol. 1102] and of the parties "for the purpose of enabling any of the parties * * * to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

3. In the early part of 1953, USG brought the following actions seeking to recover, under certain of the license agreements which this Court had adjudged unlawful under the antitrust laws and illegal, null and void, the royalties specified in such license agreements:

a. An action against National in the District Court for the Northern District of Iowa (Civil Action No. 564)

seeking royalties for the period February 1, 1948, to May 15, 1951.

b. An action against Newark in the District Court for the District of New Jersey (Civil Action No. 93-53) seeking royalties for the period February 1, 1948, to May 15, 1951.

c. An action against Ebsary in the District Court for the Southern District of New York (Civil Action No. 83-83) seeking royalties for the period March 1, 1948, to May 15, 1951.

d. An action against Certain-teed in the District Court for the Northern District of Iowa (Civil Action No. 568) seeking royalties for the period April 1, 1948, to May 15, 1948.

4. In the aforesaid actions USG alleged, as alternative claims against the respective defendants therein, that USG is entitled to recover either the reasonable value of the use of certain of its patents or due compensation for the infringement of these same patents. The patents on which the alternative claims are based, except patent No. 2,044,401, were licensed to the said defendants under the agreements which this Court had adjudged illegal, null and void.

[fols. 1103-1108] 5. Your petitioner alleges that insofar as the aforesaid actions by USG base any claim for recovery on any of the license agreements adjudged illegal, null and void by this Court's final decree of May 15, 1951, such actions are barred by, and constitute an attempt to defeat, said decree.

6. With respect to the alternative claims set forth in the aforesaid actions, your petitioner takes no position as to whether such alternative claims are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims.

Wherefore, your petitioner prays:

I. That this Court enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void

by the final decree of this Court entered on May 15, 1951, or on any provision thereof.

II. That your petitioner have such other and further relief as to this Court may seem just and proper.

Edward Knuff, Special Assistant to the Attorney General; Vincent A. Gorman, Lawrence Gochberg, Trial Attorneys.

Stanley N. Barnes, Assistant Attorney General; Edwin H. Pewett, Chief, Judgments and Judgment Enforcement Section.

June 30, 1953.

[fol. 1109] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA CENTRAL DIVISION

UNITED STATES GYPSUM COMPANY, AN ILLINOIS CORPORATION, Plaintiff,

vs.

CERTAIN-TEED PRODUCTS CORPORATION, A MARYLAND CORPORATION, Defendant

Civil Action No. 568

MOTION OF CERTAIN-TEED PRODUCTS CORPORATION FOR STAY OF PROCEEDINGS—(Copy filed in United States District Court for the District of Columbia—July 3, 1953)

Defendant Certain-teed Products Corporation (hereinafter sometimes referred to as "Certain-teed") moves this Honorable Court for an order staying all further proceedings herein until determination of the issues raised by defendant's Petition filed in the United States District Court for the District of Columbia on April 22, 1953, entitled "Petition of Certain-teed Products Corporation for Enforcement of Compliance with Final Decree of May

15, 1951", and attached to defendant's Answer heretofore filed herein, as Exhibit B.

In support of its Motion, defendant Certain-teed states the following:

1. If the issues raised by Certain-teed's Petition in the District Court for the District of Columbia are determined in Certain-teed's favor by that Court, the plaintiff in this action, United States Gypsum Company, (hereinafter sometimes refered to as "USG") will be enjoined from prosecuting the instant action.

2. Certain-teed's Petition in the District Court for the District of Columbia is meritorious, and defendant believes there is a substantial probability that the issues therein raised will be decided favorably to Certain-teed. Such disposition of Certain-teed's Petition would avoid con-
[fol. 1110] sideration by this Court of the instant action.

3. A stay of the instant action pending determination of the issues raised by Certain-teed's Petition will avoid the simultaneous consideration by this Court and the District Court for the District of Columbia of identical questions of law and of fact. Avoidance of such simultaneous consideration by two courts is in the interest of economic judicial administration. In addition, the dissipation of the efforts of counsel for both parties will be avoided.

4. Unless the instant action is stayed, Certain-teed may be subjected to conflicting Court orders.

5. This Court has before it only two of the parties to the final decree of the District Court for the District of Columbia. Since the construction of the decree is in issue in the instant action, United States of America, plaintiff in the anti-trust suit in which said decree was entered, is a necessary and may well be an indispensable party thereto. The United States of America is not now a party to the instant action. The District Court for the District of Columbia has before it all the parties, including the United States of America, interested in the application of that decree to the said actions brought by USG in this and other Federal District Courts.

6. The District Court for the District of Columbia, having tried the anti-trust action which eventuated in the Final

Decree of May 15, 1951, is fully familiar with the lengthy factual record on which the decree was rendered.

[fol. 1111] 7. USG's actions in this and other Federal District Courts are not merely private disputes; these actions raise important questions involving the public interest in the enforcement of the anti-trust laws and of the decree entered in an anti-trust action by the District Court for the District of Columbia. The orderly administration of justice requires that the court which dealt directly with these issues should determine at the outset whether USG's actions in this and other courts are inconsistent with the anti-trust decree and whether those actions defeat the purpose of that decree.

8. In Article X of the Final Decree of May 15, 1951, the District Court for the District of Columbia expressly reserved its jurisdiction to consider questions such as those raised by Certain-teed's Petition. To allow the instant action to go forward would impair and tend to defeat that reserved jurisdiction.

9. Even dismissal of the instant action by this Court might not fully protect Certain-teed. The very bringing of the instant action by USG, notwithstanding the decree in the anti-trust case, indicates that an injunctive order, as prayed in Certain-teed's Petition in the District Court for the District of Columbia, may be the only means of fully effectuating that Court's final decree and thus fully protecting Certain-teed's rights.

10. Certain-teed has been diligent in seeking a determination by the District Court for the District of Columbia of the issues raised by its said Petition.

11. USG will not be injured in any way by the stay of the instant action until the determination of the issues [fol. 1112] raised by Certain-teed's petition in the District Court for the District of Columbia. Certain-teed is able and will be able to meet the obligation of any judgment which plaintiff could obtain in the instant action.

12. On June 9, 1953, a pre-trial conference on said petition of Certain-teed and upon similar petitions of National Gypsum Company, Ebsary Gypsum Company, Inc., and Newark Plaster Company, defendants in actions instituted by USG in this Court, the United States District for the Southern District of New York and the District of New

Jersey, respectively, and which involve issues similar, in part, to those which are involved in the suit filed by USG in this Court against Certain-teed, was held. At such hearing said petitioners advised the District Court for the District of Columbia that they had filed or intended to file motions for stays in the respective Courts where suit had been instituted against them by USG; that if they were denied relief in such Courts they reserved the right to move in said District Court for the District of Columbia for a temporary restraining order; that at the time of such hearing, although said petitioners were asking for a temporary injunction on the merits after submission of the cause, they were not then asking said Court for a temporary restraining order.

The following appears in the transcript of said pre-hearing conferences:

> "Chief Judge Stephens: No temporary restraining order seems to be requested at this present time. Counsel for the petitioners apparently being of the view that those judgments will not be entered in the several other jurisdictions in the immediate future, or if such [fol. 1113] judgments were threatened, it being the opinion of view that the trial court there would suspend proceedings until this court has had an opportunity to act.
>
> What have you to say on that in substance? Of course, regardless of our ultimate decision on the question of jurisdiction which may be raised, we have jurisdiction to preserve our own jurisdiction, and there ought not to be an entry of judgment in the other courts while this case is pending here; otherwise, should we ultimately find that we have jurisdiction and that the petitioner is entitled to an injunction our relief might be futile, nugatory.
>
> What have you to say in that respect, Mr. Spray? (Counsel for USG) Is there (Tr. 32) any likelihood of these proceedings in the other jurisdictions going forward to the point of judgment while we are considering this matter this morning or in the early fall, if that should be prolonged so long?
>
> Mr. Spray: I think not. It has been called to my

attention that possibly I misunderstood Mr. Justice Cole's question. It may have been directed to what our position would be on these motions that are being filed out there,

Was that your question?

Judge Cole: My question was exactly as Chief Judge Stephens asked. I understood that several counsel asked that the proceedings be suspended pending the outcome of this petition and hearing here.

Mr. Spray: My answer to both questions—I am glad it has been brought up again—is that we, of course, have brought a suit earnestly and sincerely and called upon the court to assume jurisdiction in the matter [fol. 1114] in these other jurisdictions. And we did that in the belief that that was the proper jurisdiction, and that this is not.

In those motions before those courts we certainly would state the same position, as I say, we stated here, that we do not believe that this court should act in this matter and that we do believe that that court had jurisdiction.

However, I think I can state with complete confidence that there is not any question of these things going to judgment (Tr. 33) before there could be a decision of this court in the fall. There just is not any possibility or likelihood at all of that.

The suits in New Jersey and in New York have not even been joined. There has been no answer filed.

The suits out in Iowa have formed an issue, but it is perfectly clear that they could not be and would not be tried. And I can be very confident of that, Your Honor, that there will be no judgment before you could act on it here. (Tr. 34)

• • • • • • •

Chief Judge Stephens: Well, there certainly ought not to be any unseemly race or competition for jurisdiction in these cases as between these several United States District Courts concerned. And we feel sure there will not be, certainly, so far as counsel on either side of this case are concerned. And we would assume that the other courts would suspend the proceedings

there in some manner until we had an opportunity to hear you here, since we have jurisdiction over our own decree, at least, to some extent under our reservation of the jurisdiction.

• • • • • • •

[fol. 1115] Chief Judge Stephens: Of course, we would take steps here to protect our own jurisdiction, that is, to preserve our jurisdiction for the purpose of hearing this proceeding if it became necessary, but since no application for a stay order hase been (Tr. 37) made now, that is, for a temporary restraining order, in view of the statements made by counsel on both sides, we will assume that there will be no necessity for stay orders, that is, for temporary restraining orders at the present time or later. Of course, counsel may apply for such an order should exigencies arise demanding it. (Tr. 38)

• • • • • • •

Chief Judge Stephens: • • • we have been given at least informal assurance this morning that those suits (the suits filed by USG in the various District Courts, as heretofore described) will not be actively prosecuted until this court gets a chance to express itself. (Tr. 42)

• • • • • • •

Chief Judge Stephens: It would seem to me that it would be quite improvident to go forward to any conclusive action in this litigation in these other suits while this case is pending here. And I would not think that the parties on either side would be disposed to do that. I would think that if the parties to the foreign suits would make the situation known to the judges in those suits they (Tr. 49) would not be disposed to press the case on.

However, if any emergency arises in which either side needs relief from this court we will make ourselves accessible some way or another. (Tr. 50)

• • • • • • •

[fol. 1116] Judge Cole suggests that it would be desirable, Mr. Spray, if you can do so, for you to make a

definite commitment with reference to not proceeding in these other cases. Would that be possible for you to do either now or later?

Mr. Spray: I have hesitated to do that for the reason I said this morning, but I have certainly heard everything the court has said today. And I intend to guide myself accordingly, but having called upon these other courts and filed the suits, I just had some hesitancy coming down here and making a commitment about it. But I certainly do not intend to take an action that I think would be disapproved by this court. (Tr. 55)

Chief Judge Stephens: We understand that, but we understand also your reluctance to commit yourself to a program that might possibly develop to be inconsistent with the wishes of the judges in the other jurisdictions, but I think you, in effect, have committed yourself. I do not mean to bind you to this, but I think you have, in effect, committed yourself not to proceed in the other cases until this court has had an opportunity to express itself unless you are required to do so by the action of the judges elsewhere.

Mr. Spray: That is the point.

Chief Judge Stephens: Is that correct?

Mr. Spray: I think that is quite correct, yes, sir.

Chief Judge Stephens: Of course, if action is contemplated elsewhere as the result of the insistence of the judges elsewhere, the gentlemen who represent the petitioners are entitled to apply here for a temporary [fol. 1117] restraining order, but I think there will be no practical difficulty about that. I should not think that the other judges would insist upon going forward with the case if the counsel do not desire to." (Tr. 56)

13. By virtue of the matters set out in Paragraph 11 hereof, the District Court for the District of Columbia made clear that it considered that it had primary jurisdiction of the matters involved in this suit; that it had jurisdiction to preserve its own jurisdiction; that there ought not to be a further pursuit of the proceedings filed in this Court and in the other Federal District Courts by USG, and that no further action ought to be taken and no

judgment ought to be entered therein before the District Court for the District of Columbia could act upon said Petitions pending before it, and the Answers of USG and the United States of America to be in response thereto, and upon the briefs and authorities to be submitted by all of the parties.

Wherefore, defendant Certain-teed Products Corporation prays this Honorable Court for an order staying all further proceedings herein until determination of the issues raised by said Petition filed by it in the United States District Court for the District of Columbia on April 22, 1953.

(S) Herbert W. Hirsh; Norman A. Miller; Clausen, Hirsh & Miller; A. B. Howland; Gamble, Read, Howland, Gamble & Riepe; Dwight G. Rider, Attorneys for Defendant.

[fol. 1118] *Duly sworn to by Norman A. Miller; jurat omitted in printing.*

[fol. 1119] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA CENTRAL DIVISION

Civil Action No. 568

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

against

CERTAIN-TEED PRODUCTS CORPORATION, a Maryland Corporation, Defendant

PLAINTIFF'S STATEMENT WITH RESPECT TO DEFENDANT'S MOTION FOR STAY—(Copy filed in United States District Court for the District of Columbia—July 13, 1953)

Now comes plaintiff, United States Gypsum Company (hereinafter sometimes referred to as U. S. Gypsum), by its attorneys, and respectfully submits the following state-

ment as to the motion for stay hereinbefore filed in this cause by defendant, Certain-teed Products Corporation (hereinafter sometimes referred to as Certain-teed), for an order staying all further proceedings herein until determination of the issues raised by the petition filed by Certain-teed in the United States District Court for the District of Columbia on April 22, 1953:

I

General objection to defendant's motion for stay and answer to grounds advanced by defendant in support thereof.

Plaintiff objects generally to the effort by defendant Certain-teed to avoid a determination by this court of the issues herein by the filing of its petition in the District of Columbia court on April 22, 1953 and by the filing of its motion for stay of these proceedings, and specifically answering the grounds advanced by defendant Certain-teed in support of its said motion for stay, plaintiff U. S. Gypsum respectfully shows unto the court as follows:

1. Answering paragraphs 1 and 2 contained in defendant's motion, plaintiff admits that if the issues raised by Certain-teed's petition in the District of Columbia court are determined in its favor, the plaintiff in this action might be enjoined from prosecuting this suit, or one or more counts of the complaint herein, but plaintiff denies that Certain-teed's said petition is meritorious, denies that [fol. 1120] there is a substantial probability that the issues therein raised will be decided favorably to Certain-teed, and denies that the disposition of Certain-teed's petition in the District of Columbia court will avoid consideration by this court of issues formed in this cause.

2. Plaintiff admits the averments contained in paragraph 3 of Certain-teed's motion for stay, except that it avers that a stay of the action as prayed for may or may not avoid simultaneous consideration by this court and by the District of Columbia court of identical questions of law and of fact as averred in said paragraph 3. Further answering, plaintiff avers that the simultaneous consideration of identical questions by two courts and the dissipation of

the efforts of counsel, which defendant now purportedly seeks to avoid, are the direct result of defendant's action in filing its petition in the District of Columbia court following the filing of plaintiff's suit against it in this court, and therefore are not available to defendant as grounds for the granting of its motion for stay.

3. Answering the averments contained in paragraph 4 of defendant's motion for stay, plaintiff avers that there is a possibility, but not a probability, of conflicting orders being entered by this court and the District of Columbia court in the two proceedings, and that every reasonable effort should be made to avoid if possible the entering of such conflicting orders.

4. Answering paragraph 5 of defendant's motion for stay, plaintiff admits that this court has before it in this case only two of the parties to the final decree of the District Court of the District of Columbia and admits that the United States of America is not a party to this action, but denies each and every other averment contained in said paragraph.

5. Plaintiff admits the averments contained in paragraph 6 of defendant's motion for stay.

6. Plaintiff denies each and every averment contained in paragraphs 7, 8 and 9 of defendant's motion for stay.

7. Plaintiff is without knowledge or information sufficient to form a belief as to the truth of the averments contained in paragraph 10 of defendant's motion for stay.

8. Plaintiff denies the averments contained in paragraph 11 of defendant's motion for stay.

[fol. 1121] 9. Plaintiff admits the averments contained in paragraph 12 of defendant's motion for stay, except as hereinafter denied or qualified. Further answering, plaintiff avers that the quotations taken from the transcript of the June 9, 1953 prehearing conference are only a portion of the stenographic transcript of said proceedings and contain certain errors in transcription which will be subject to correction at the next hearing before the District of Columbia court, but further avers that the full transcript of the hearing, and any corrections which might be made in the transcript quoted in said paragraph 12, would not change in any substantial manner the essence of the material presented in the quotations set forth in said para-

graph 12. Further answering, plaintiff denies that the word "not" in the fourth line of the first quotation set forth at the bottom of page 4 of defendant's motion for stay, appeared in the stenographic transcript as submitted to plaintiff.

10. Plaintiff denies each and every averment contained in paragraph 13 of defendant's motion for stay, except that plaintiff admits that at the June 9, 1953 prehearing conference the District of Columbia court stated that, regardless of its ultimate decision on the question of jurisdiction, it had jurisdiction to preserve its own jurisdiction and expressed the view that there ought not to be an unseemly race for judgment in any of the various federal district courts in which the matters referred to were pending and that judgment ought not be entered in the other courts before the District of Columbia court could act upon the questions raised in that proceeding.

II

Plaintiff's suggestion as to defendant's motion for stay in view of the pending proceedings before the District of Columbia court.

1. Plaintiff filed its suit against defendant Certain-teed in this court in good faith and with the intention and expectation of prosecuting the case diligently. However, plaintiff can not be unmindful of the fact that by reason of certain petitions filed in the District of Columbia court, including one filed therein by Certain-teed, two federal district courts have been called upon to determine like issues, and that a reasonable procedure must be adopted to permit an orderly disposition of the matter in each court.

[fol. 1122] 2. On June 9, 1953, a prehearing conference was called in Washington, D. C. by the three-judge statutory court sitting as the District Court for the District of Columbia, at which session parties to the prior action in that court, including the plaintiff and the defendant in this case, were represented by their respective attorneys. In said prehearing before the District of Columbia court, the Honorable Harold M. Stephens, presiding Justice, as shown

in defendant's motion for stay, expressed confidence that neither the courts nor the parties to the respective actions would indulge in any unseemly race for jurisdiction over the questions raised, and expressly requested counsel for U. S. Gypsum not to take action in this court which would have the effect of bringing this cause to judgment before the District of Columbia court might have the opportunity of determining questions raised by the petitions filed in that cause. In answer to this request counsel for U. S. Gypsum, out of deference to this court, explained that he fully understood and appreciated the position of the District of Columbia court in this respect but indicated that he could not so stipulate without advising this court of the situation which had arisen and asking its permission so to do.

3. At the June 9, 1953 prehearing conference held before the District of Columbia court as aforesaid, plaintiff U. S. Gypsum took the position that that court did not have jurisdiction to determine the issues presented to it by the petition filed in said court by Certain-teed, stating in substance:

(a) that there is no provision in the decree entered in the District of Columbia court on May 15, 1951, enjoining U. S. Gypsum from seeking to collect or to recover compensation for the actual use of its patents prior to the entry of said decree or enjoining Certain-teed from paying for the actual use it may have made of U. S. Gypsum's patents prior to the entry of said decree;

(b) that such an issue was not before the District of Columbia court in the proceeding which culminated in the decree of May 15, 1951, as will appear from an examination of the pleadings in that case, the evidence submitted, the findings and orders of the trial court, and the opinions of the trial court (67 F. Supp. 397) and the Supreme Court (333 U. S. 364; 340 U. S. 76);

(c) that such an issue could not have been determined by the District of Columbia court at the time it entered its decree of May 15, 1951, under the issues raised by the pleadings then filed in said cause;

[fol. 1123] (d) that Certain-teed's petition in the District of Columbia court is not within the reserva-

tion of jurisdiction contained in Article X of said decree of May 15, 1951, but on the contrary seeks to enlarge the injunctive provisions of said decree to cover matters not included therein, and which could not have been included at the time the decree was entered on the then state of the record;

(e) that Certain-teed's petition in the District of Columbia court seeks to obtain an adjudication on matters not reserved by said special statutory court in its said decree; and

(f) that Certain-teed's petition in the District of Columbia court represents an effort on Certain-teed's part to take the jurisdiction away from this court, a federal court of competent jurisdiction, which has already had the issues presented to it and which is ready, willing and able to bring the case on for trial and a prompt determination of those issues;

all as appears from the stenographic transcript of said proceedings, a copy of which plaintiff will produce at the hearing before this court on defendant's motion for stay. Plaintiff intends to present these objections to the jurisdiction of the District of Columbia court, together with the authorities in support of its position, in the answer and brief which it will file in the District of Columbia court following the filing of a brief by the attorneys for Certain-teed in that proceeding in support of the petition which it has there filed, all of which has been scheduled by the District of Columbia court to the end of permitting it to consider this fall the issues raised by said Certain-teed's petition.

4. At the said June 9, 1953 prehearing conference before the District of Columbia court, representatives from the Department of Justice appeared on behalf of the United States of America, plaintiff in that cause, and stated that although the Department had been considering for a month or so the matters raised by the petitions filed in that suit, including the petition filed therein by Certain-teed, it had not as yet decided what its position should be, but that a statement of the Department's position would be filed with the court by June 30, 1953. On said last mentioned date there was filed in the

District of Columbia proceeding a "Petition of United States for Orders or Directions for the Construction, Carrying out or Enforcement of the Final Decree of May 15, 1951," wherein reference was made to this action against Certain-teed in the District Court for the Northern District of Iowa (Civil Action No. 568) and three other actions [fol. 1124] brought by this plaintiff against other defendants, and wherein the United States took the position that in so far as those actions based any claim for recovery on license agreements adjudged illegal, null and void by the District of Columbia court's final decree of May 15, 1951, such actions were barred by, and constituted an attempt to defeat, said decree. In its said petition the United States of America also referred to the alternate claims in said actions against Certain-teed and others, as aforesaid, whereby plaintiff was seeking to recover either the reasonable value for the use of certain of its patents, or due compensation for the infringement of them, and as to such alternative claims the Government expressly stated to the court that it was taking no position as to whether they were barred by that court's final decree of May 15, 1951, or as to whether that court should enter an order enjoining U. S. Gypsum from prosecuting them. Said petition contained a single prayer for specific relief wherein it asked the District of Columbia court to enjoin U. S. Gypsum from asserting any claim or maintaining any action based in whole or in part on any of the license agreements adjudged illegal, null and void by that court's final decree of May 15, 1951, or on any provision thereof. In other words, the Government has asked the District of Columbia court to so construe its decree of May 15, 1951, as to prohibit U. S. Gypsum from maintaining Counts I and II of plaintiff's complaint herein, but has refused to take any position as to the claims of Certain-teed in its said petition that plaintiff should not be permitted to recover for the actual use of its patents under any cause of action as stated in Counts III, IV and V of the complaint herein. A copy of the petition filed on behalf of the United States, as aforesaid, is attached hereto as Exhibit A.

5. Plaintiff's position before this court is the same as the position taken by it before the District of Columbia

court at the June 9, 1953 prehearing conference in that it represents unto this court that the District of Columbia court does not have jurisdiction to determine the issues presented to it by the petition filed in that court by Certain-teed, and it believes that upon the presentation of the points of law the District of Columbia court will so conclude. In the event that said court should determine that it does not have jurisdiction to consider the matters raised by said Certain-teed petition, then the parties hereto would be free to proceed promptly to the trial of the case before this court. On the other hand, plaintiff does not desire to challenge the right of the District of Columbia court to [fol. 1125] determine in the first instance the question of its jurisdiction and the construction of its own decree which was entered on May 15, 1951, long prior to the institution of this suit in Civil Action No. 568.

6. Furthermore, in view of the position which the Government has now taken with respect to the prosecution of Counts I and II of the complaint filed herein, plaintiff U. S. Gypsum feels compelled in the first instance to clear with the District of Columbia court any question as to whether or not the action which it has taken in including Counts I and II of the complaint herein is considered to have been barred in any way by, or to constitute an attempt to defeat, that court's decree of May 15, 1951.

7. For the reasons hereinbefore set forth plaintiff, with the permission of this court, has no objection to stipulating with the defendant that proceedings in this court may be temporarily continued until the District of Columbia court has determined such jurisdictional questions and such other questions with respect to its said decree of May 15, 1951, as it may deem appropriate.

Respectfully submitted, Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois. Arthur A. Olson, Thiess, Olson, Mecklenburger, vonHolst and Coltman, 77 West Washington Street, Chicago 2, Illinois. Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fol. 1126] EXHIBIT "A" TO PLAINTIFF'S STATEMENT

Civil Action No. 8017

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

Petition of United States of America

Edward Knuff, Special Assistant to the Attorney General. Vincent A. Gorman, Lawrence Gochberg, Trial Attorneys.

Stanley N. Barnes, Assistant Attorney General. Edwin H. Pewett, Chief, Judgments and Judgment Enforcement Section.

Filed June 30, 1953.

[fol. 1127] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-teed Products Corporation; The Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker, Frederick G. Ebsary; and Frederick Tomkins, Defendants

Petition of United States for Orders or Directions for the Construction, Carrying Out or Enforcement of the Final Decree of May 15, 1951

Comes now the United States of America and respectfully shows as follows:

1. Petitioner, United States, is the plaintiff in the above-entitled action. United States Gypsum Company (USG), National Gypsum Company (National), Certain-teed Products Corporation (Certain-teed), Ebsary Gypsum Company, Inc. (Ebsary), and Newark Plaster Company (Newark) are all defendants in the above-entitled action.

2. On May 15, 1951, this Court entered its final decree in the above-entitled action. Article IV of said decree "adjudged unlawful under the anti-trust laws of the United States and illegal, null and void" each of the license agreements listed in Article II of the decree. By Article X of the decree, this Court retained jurisdiction of the cause and of the parties "for the purpose of enabling any of the parties * * * to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

3. In the early part of 1953, USG brought the following actions seeking to recover, under certain of the license agreements which this Court had adjudged unlawful under the antitrust laws and illegal, null and void, the royalties specified in such license agreements:

a. An action against National in the District Court for the Northern District of Iowa (Civil Action No. 564) seeking royalties for the period February 1, 1948, to May 15, 1951.

b. An action against Newark in the District Court for the District of New Jersey (Civil Action No. 93-53) seeking royalties for the period February 1, 1948, to May 15, 1951.

c. An action against Ebsary in the District Court for the Southern District of New York (Civil Action No. 83-83) seeking royalties for the period March 1, 1948, to May 15, 1951.

d. An action against Certain-teed in the District Court for the Northern District of Iowa (Civil Action No. 568) seeking royalties for the period April 1, 1948, to May 15, 1948.

4. In the aforesaid actions USG alleged, as alternative claims against the respective defendants therein, that USG is entitled to recover either the reasonable value of the use of certain of its patents or due compensation for the infringement of these same patents. The patents on which the alternative claims are based, except patent No. 2,044,401, were licensed to the said defendants under the agreements which this Court had adjudged illegal, null and void.

[fol. 1128] 5. Your petitioner alleges that insofar as the aforesaid actions by USG base any claim for recovery on any of the license agreements adjudged illegal, null and void by this Court's final decree of May 15, 1951, such actions are barred by, and constitute an attempt to defeat, said decree.

6. With respect to the alternative claims set forth in the aforesaid actions, your petitioner takes no position as to whether such alternative claims are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims.

Wherefore, your petitioner prays:

I. That this Court enjoin USG from asserting any claim, and from instituting, threatening to institute, or maintaining any action, based, in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof.

II. That your petitioner have such other and further relief as to this Court may seem just and proper.

Edward Knuff, Special Assistant to the Attorney General. Vincent A. Gorman, Lawrence Gochberg, Trial Attorneys.

Stanley N. Barnes, Assistant Attorney General. Edwin H. Pewett, Chief, Judgments and Judgment Enforcement Section.

June 30, 1953.

[fol. 1129] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff,

against

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

PLAINTIFF'S STATEMENT WITH RESPECT TO DEFENDANT'S MOTION FOR STAY—Copy Filed in United States District Court for the District of Columbia—July 13, 1953

Now comes plaintiff, United States Gypsum Company (hereinafter sometimes referred to as U. S. Gypsum), by its attorneys, and respectfully submits the following statement as to the motion for stay hereinbefore filed in this cause by

defendant, National Gypsum Company (hereinafter sometimes referred to as National), for an order staying all further proceedings herein until determination of the issues raised by the petition filed by National in the United States District Court for the District of Columbia on March 25, 1953:

I

General Objection to Defendant's Motion for Stay and Answer to Grounds Advanced by Defendant in Support Thereof

Plaintiff objects generally to the effort by defendant National to avoid a determintaion by this court of the issues herein by the filing of its petition in the District of Columbia court on March 25, 1953 and by the filing of its motion for stay of these proceedings, and answering the grounds advanced by defendant National in support of its said motion for stay, plaintiff U. S. Gypsum respectfully shows unto the court as follows:

1. Answering paragraphs 1 and 2 contained in defendant's motion, plaintiff admits that if the issues raised by National's petition in the District of Columbia court are determined in its favor, the plaintiff in this action might be enjoined from prosecuting this suit, or one or more counts of the complaint herein, but plaintiff denies that National's [fol. 1130] said petition is meritorious, denies that there is a substantial probability that the issues therein raised will be decided favorably to National, and denies that the disposition of National's petition in the District of Columbia court will avoid consideration by this court of issues formed in this cause.

2. Plaintiff admits the averments contained in paragraph 3 of National's motion for stay, except that it avers that a stay of the action as prayed for may or may not avoid simultaneous consideration by this court and by the District of Columbia court of identical questions of law and of fact as averred in said paragraph 3. Further answering, plaintiff avers that the simultaneous consideration of identical questions by two courts and the dissipation of the efforts of counsel, which defendant now purportedly seeks to avoid,

are the direct result of defendant's action in filing its petition in the District of Columbia court following the filing of plaintiff's suit against it in this court, and therefore are not available to defendant as grounds for the granting of its motion for stay.

3. Plaintiff denies each and every averment contained in paragraph 4 of defendant's motion for stay, except that plaintiff admits that there is a possibility, but not a probability, of conflicting orders being entered by this court and the District of Columbia court in the two proceedings. Further answering, this defendant avers that every reasonable effort should be made to avoid if possible the entering of such conflicting orders.

4. Answering paragraph 5 of defendant's motion for stay, plaintiff admits that this court has before it in this case only two of the parties to the final decree of the District Court of the District of Columbia, but denies each and every other averment contained in said paragraph.

5. Plaintiff admits the averments contained in paragraph 6 of defendant's motion for stay.

6. Plaintiff denies each and every averment contained in paragraphs 7, 8 and 9 of defendant's motion for stay.

7. Plaintiff admits the averments contained in paragraph 10 of defendant's motion for stay.

8. Plaintiff denies the averments contained in paragraph 11 of defendant's motion for stay.

[fol. 1131]

II

Plaintiff's Suggestion as to Defendant's Motion for Stay in View of the Pending Proceedings Before the District of Columbia Court

1. Plaintiff filed its suit against defendant National in this court in good faith and with the intention and expectation of prosecuting the case diligently. However, plaintiff cannot be unmindful of the fact that, by reason of National's petition in the District of Columbia court, two federal district courts have been called upon to determine like issues, and that a reasonable procedure must be adopted to permit an orderly disposition of the matter in each court.

2. On June 9, 1953, a prehearing conference was called in

Washington, D. C. by the three-judge statutory court sitting as the District Court for the District of Columbia, at which session parties to the prior action in that court, including the plaintiff and the defendant in this case, were represented by their respective attorneys. In said prehearing before the District of Columbia court, the Honorable Harold M. Stephens, presiding Justice, expressed confidence that neither the courts nor the parties to the respective actions would indulge in any unseemly race for jurisdiction over the questions raised, and expressly requested counsel for U. S. Gypsum not to take action in this court which would have the effect of bringing this cause to judgment before the District of Columbia court might have the opportunity of determining questions raised by the petitions filed in that cause. In answer to this request counsel for U. S. Gypsum, out of deference to this court, explained that he fully understood and appreciated the position of the District of Columbia court in this respect but indicated that he could not so stipulate without advising this court of the situation which had arisen and asking its permission so to do.

3. At the June 9, 1953 prehearing conference held before the District of Columbia court as aforesaid, plaintiff U. S. Gypsum took the position that that court did not have jurisdiction to determine the issues presented to it by the petition filed in said court by National, stating in substance:

> (a) that there is no provision in the decree entered in the District of Columbia court on May 15, 1951, en- [fol. 1132] joining U. S. Gypsum from seeking to collect or to recover compensation for the actual use of its patents prior to the entry of said decree or enjoining National from paying for the actual use it may have made of U. S. Gypsum's patents prior to the entry of said decree;
>
> (b) that such an issue was not before the District of Columbia court in the proceeding which culminated in the decree of May 15, 1951, as will appear from an examination of the pleadings in that case, the evidence submitted, the findings and orders of the trial court, and the opinions of the trial court (67 F. Supp. 397) and the Supreme Court (333 U. S. 364; 340 U. S. 76);
>
> (c) that such an issue could not have been deter-

mined by the District of Columbia court at the time it entered its decree of May 15, 1951, under the issues raised by the pleadings then filed in said cause;

(d) that National's petition in the District of Columbia court is not within the reservation of jurisdiction contained in Article X of said decree of May 15, 1951, but on the contrary seeks to enlarge the injunctive provisions of said decree to cover matters not included therein, and which could not have been included at the time the decree was entered on the then state of the record;

(e) that National's petition in the District of Columbia court seeks to obtain an adjudication on matters not reserved by said special statutory court in its said decree;

(f) that National's petition in the District of Columbia court represents an effort on National's part to take the jurisdiction away from this court, a federal court of competent jurisdiction, which has already had the issues presented to it and which is ready, willing and able to bring the case on for trial and a prompt determination of those issues;

all as appears from the stenographic transcript of said proceedings, a copy of which plaintiff will produce at the hearing before this court on defendant's motion for stay. Plaintiff intends to present these objections to the jurisdiction of the District of Columbia court, together with the authorities in support of its position, in the answer and brief which it will file in the District of Columbia court following the filing of a brief by the attorneys for National [fol. 1133] in that proceeding in support of the petition which it has there filed, all of which has been scheduled by the District of Columbia court to the end of permitting it to consider this fall the issues raised by said National petition.

4. At the said June 9, 1953 prehearing conference before the District of Columbia court, representatives from the Department of Justice appeared on behalf of the United States of America, plaintiff in that cause, and stated that although the Department had been considering for a month or so the matters raised by the petitions filed by National and others in that suit, it had not as yet decided what its

position should be, but that a statement of the Department's position would be filed with the court by June 30, 1953. On said last mentioned date there was filed in the District of Columbia proceeding a "Petition of United States for Orders or Directions for the Construction, Carrying out or Enforcement of the Final Decree of May 15, 1951," wherein reference was made to this action against National in the District Court for the Northern District of Iowa (Civil Action No. 564) and three other actions brought by this plaintiff against other defendants, and wherein the United States took the position that in so far as those actions based any claim for recovery on license agreements adjudged illegal, null and void by the District of Columbia court's final decree of May 15, 1951, such actions were barred by, and constituted an attempt to defeat said decree. In its said petition the United States of America also referred to the alternate claims in said actions against National and others, as aforesaid, whereby plaintiff was seeking to recover either the reasonable value for the use of certain of its patents, or due compensation for the infringement of them, and as to such alternative claims the Government expressly stated to the court that it was taking no position as to whether they were barred by that court's final decree of May 15, 1951, or as to whether that court should enter an order enjoining U. S. Gypsum from prosecuting them. Said petition contained a single prayer for specific relief wherein it asked the District of Columbia court to enjoin U. S. Gypsum from asserting any claim or maintaining any action based in whole or in part on any of the license agreements adjudged illegal, null and void by that court's final decree of May 15, 1951, or on any provision thereof. In other words, the Government has asked the District of Columbia court to so construe its decree of May 15, 1951, as [fol. 1134] to prohibit U. S. Gypsum from maintaining Counts I and II, as amended, of plaintiff's complaint herein, but has refused to take any position as to the claims of National in its said petition that plaintiff should not be permitted to recover for the actual use of its patents under any cause of action as stated in Count III, as amended, or in Counts IV or V of the complaint herein. A copy of the petition filed on behalf of the United States, as aforesaid, is attached hereto as Exhibit A.

5. Plaintiff's position before this court is the same as the position taken by it before the District of Columbia court at the June 9, 1953 prehearing conference in that it represents unto this court that the District of Columbia court does not have jurisdiction to determine the issues presented to it by the petition filed in that court by National, and it believes that upon the presentation of the points of law the District of Columbia court will so conclude. In the event that said court should determine that it does not have jurisdiction to consider the matters raised by said National petition, then the parties hereto would be free to proceed promptly to the trial of the case before this court. On the other hand, plaintiff does not desire to challenge the right of the District of Columbia court to determine in the first instance the question of its jurisdiction and the construction of its own decree which was entered on May 15, 1951, long prior to the institution of this suit in Civil Action No. 564.

6. Furthermore, in view of the position which the Government has now taken with respect to the prosecution of Counts I and II of the complaint filed herein, plaintiff U. S. Gypsum feels compelled in the first instance to clear with the District of Columbia court any question as to whether or not the action which it has taken in including Counts I and II of the complaint herein is considered to have been barred in any way by, or to constitute an attempt to defeat, that court's decree of May 15, 1951.

7. For the reasons hereinbefore set forth plaintiff, with the permission of this court, has no objection to stipulating with the defendant that proceedings in this court may be temporarily continued until the District of Columbia court [fol. 1135] has determined such jurisdictional questions and such other questions with respect to its said decree of May 15, 1951, as it may deem appropriate.

Respectfully submitted, Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois; Arthur A. Olson, Thiess, Olson, Mecklenburger, vonHolst and Coltman, 77 West Washington Street, Chicago 2, Illinois; Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fols. 1136-1138] EXHIBIT "A" TO PLAINTIFF'S STATEMENT OMITTED. PRINTED SIDE PAGE 1126 ANTE

[fol. 1139] [File endorsement omitted]

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

No. 564 Civil

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff

vs.

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

ORDER GRANTING MOTION FOR STAY OF PROCEEDINGS—(Copy Filed in United States District Court for the District of Columbia—July 20, 1953)

On the 13th day of July, 1953, at 10:30 a.m. at the Federal Court House at Fort Dodge, Iowa, there came on for hearing the motion of the defendant for a stay of proceedings herein pending the determination of certain issues in an action pending in the United States District Court for the District of Columbia, entitled United States of America, plaintiff vs. United States Gypsum Company et al. defendants, being Civil Action No. 8017.

Cranston Spray, attorney, Chicago, Illinois, Frank H. Helsell and William S. Burnquist, attorneys, Fort Dodge, Iowa, appeared for plaintiff.

E. Marshall Thomas, attorney, Dubuque, Iowa, Elmer E. Finck, attorney, Buffalo, New York, and Seymour D. Lewis, attorney, New York City, New York, appeared for defendant.

At said hearing counsel for the parties were heard, the said motion submitted to the Court, and by it taken under advisement.

And Now to Wit, on this 13th day of July, 1953, the Court being fully advised in the premises,

It Is Hereby Ordered that said Motion for Stay of Proceedings be granted as prayed, subject to the right of the plaintiff to move to vacate the Stay in the event that it should be made to appear that the proceedings in the case pending in the United States District Court for the District of Columbia are not being diligently prosecuted.

Done and Ordered at Fort Dodge, Iowa, this 13th day of [fol. 1140] July, 1953.

(S.) Henry N. Graven, United States District Judge.

The above is a true copy. Attest: Lee McNeely, Clerk, By (S.) Jane Sullivan, Deputy.

[fol. 1141]

Law Offices
KRIEGER & JORGENSEN
Suite 514 Wyatt Building
777 Fourteenth Street, N. W.
Washington 5, D. C.

Seymour Krieger
Norman E. Jorgensen

Telephone
Executive 3-1635
July 20, 1953

George A. Watts, Deputy Clerk
United States District Court for the
District of Columbia
Washington 1, D. C.

Re: *United States v. U. S. Gypsum Co., et al.*, Civil Action No. 8017

Dear Mr. Watts:

I am writing this letter for filing with the Court in order to advise the Court of the action taken by the District Court for the Northern District of Iowa on the Motion for Stay of National Gypsum Company in the case of United States Gypsum Company v. National Gypsum Company, Civil Action No. 564, in the United States District Court for the Northern District of Iowa, Central Division.

This motion was heard on July 13, 1953 and I am enclos-

ing herewith a copy of the Order entered by Judge Henry N. Graven on that date.

On June 25, 1953 I filed with the Court copies of the Motion for Stay and also advised the Court that the hearing on that Stay was scheduled for July 13, 1953.

I am filing herewith five copies of this letter and five copies of the enclosed Order; and I am also sending a copy of this letter and Order to counsel for all parties who entered an appearance at the pre-hearing conference on June 9, 1953. I am indicating at the bottom of this letter the names of the persons to whom copies of this letter have been mailed.

Very truly yours, Seymour Krieger, Attorney for National Gypsum Company.

Attachs.

[fol. 1142] George A. Watts July 20, 1953

cc: Edward Knuff, Esq., Special Assistant to the Attorney General, United States Department of Justice, Washington 25, D. C., Attorney for the United States of America.

C. Roger Nelson, Esq., Barr Building, Washington 6, D. C., Attorney for Certain-Teed Products Corporation.

Hugh Lynch, Jr., Esq., 1625 K Street, N.W., Washington 6, D. C., Attorney for United States Gypsum Company.

Albert E. Hallett, Esq., Dallstream, Schiff, Stern & Hardin, 231 South La Salle Street, Chicago 4, Illinois, Attorney for Celotex Corporation.

Joseph S. Rippey, Esq., 612 Powers Building, Rochester 14, New York, Attorney for Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., DeWitt, Pepper & Howell, 120 Broadway, New York 5, New York, Attorney for Newark Plaster Company.

[fol. 1143] IN THE UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

Civil Action No. 564

UNITED STATES GYPSUM COMPANY, an Illinois Corporation, Plaintiff

vs.

NATIONAL GYPSUM COMPANY, a Delaware Corporation, Defendant

AMENDMENT TO COMPLAINT—(Copy filed in United States District Court for the District of Columbia—July 28, 1953)

Plaintiff, United States Gypsum Company, hereinafter referred to as U. S. Gypsum, having heretofore, on January 28, 1953, filed its Complaint herein, Civil Action No. 564, against defendant, National Gypsum Company, hereinafter referred to as National, and National not having heretofore filed a responsive pleading, U. S. Gypsum now amends, pursuant to Rule 15(a) of the Federal Rules of Civil Procedure, its Complaint as follows:

I. *Amend Count I of the Complaint by adding five additional paragraphs immediately following paragraph 9 on page 4 of the Complaint, such additional paragraphs to read as follows:*

10. On or about the 30th day of December, 1935, National, as the resulting or surviving corporation of a merger effected under the laws of the State of Delaware on or about that date between National and Universal Gypsum & Lime Co., a Delaware corporation (hereinafter referred to as Universal) acquired, among other assets, certain gypsum [fol. 1144] board plants of Universal, together with that certain license agreement entered into on November 5, 1929, between U. S. Gypsum, as licensor, and Universal and its receivers, as the licensee, under which the licensee therein was licensed to manufacture and sell gypsum board embodying or made by the use of the inventions set forth and

claimed in the same letters patent and applications for letters patent as those described in said license agreement of October 17, 1929, between U. S. Gypsum and National, including letters patent thereafter granted upon any of said applications, for the full term of said letters patent. Said license agreement of November 5, 1929, included said Application Serial No. 733,197 upon which Letters Patent of the United States No. 2,017,022 was duly and legally granted to U. S. Gypsum as aforesaid, which thereupon became letters patent under said Universal license of November 5, 1929. During the period of the events mentioned in this Count, from February 1, 1948, to May 15, 1951, and for some time prior thereto, the provisions of the licenses under said letters patent and applications for letters patent contained in said National agreement of October 17, 1929, and said Universal agreement of November 5, 1929, including the provision for payment by licensee of a license fee or royalty of one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, were identical.

11. A true copy of said Universal license agreement of November 5, 1929, is attached hereto as Exhibit B to this Count and made a part hereof.

12. During the period when both of said licenses provided for payment by the licensee of a license fee or royalty of [fol. 1145] one per cent (1%) of licensee's selling price of gypsum board manufactured and sold by it, National paid said license fee or royalty of one per cent (1%) of its selling price of gypsum board manufactured and sold by it until February 1, 1948, and plaintiff is informed and believes, and on such information and belief states the fact to be, that National allocated a part of such license fees or royalties to the said National license of October 17, 1929, and a part thereof to said Universal license of November 5, 1929, and that the proportion so allocated by National to said Universal license of November 5, 1929, was the amount of the license fees or royalties due on such gypsum board manufactured in the plants acquired by National from Universal in the merger of December 30, 1935, as aforesaid.

13. National, during the period commencing on February 1, 1948, and ending on May 14, 1951, manufactured in said gypsum plants acquired by it from Universal as aforesaid,

great quantities of said gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022, and sold the same for an amount aggregating, to-wit: Seventy Million Dollars ($70,000,000), for which National, upon the basis of such allocation of license fees or royalties, has become indebted to U. S. Gypsum for license fees or royalties aggregating Seven Hundred Thousand Dollars ($700,000), which said license fees and royalties said National has wholly failed and refused to pay in whole or in part although often requested so to do.

14. Plaintiff in any event claims only a single license fee or royalty of one per cent (1%) of National's selling price [fol. 1146] of gypsum board embodying or made by the use of Letters Patent No. 2,017,022, manufactured and sold by National during said period from February 1, 1948, to May 15, 1951.

II. *Amend Count II of the Complaint by adding three additional paragraphs immediately following paragraph 3 on page 5 of the Complaint, such additional paragraphs to read as follows:*

4. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10, 11 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5. On or about February 1, 1948, National discontinued the payment of said license fee of one per cent (1%) of its selling price of gypsum board manufactured and sold by it but nevertheless continued to manufacture in its several plaints, including said plants acquired from Universal, gypsum board embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022 as aforesaid and to sell the same. U. S. Gypsum and National, each having determined to discontinue compliance with the provisions of said license agreement of November 5, 1929, agreed, and it was so understood between them, that National would account for and pay to U. S. Gypsum the said license fee or royalty of one per cent (1%) of National's selling price for gypsum board actually manu-

factured by it in its several plants, including said plants acquired from Universal, and embodying or made by the use of the inventions disclosed and claimed in said Letters Patent No. 2,017,022. It was further understood and [fol. 1147] agreed that no further performance would be required by either party under said license agreement of November 5, 1929, except that National could continue to use said patents and would account for and pay to U. S. Gypsum all such license fees or royalties for the actual use thereof as aforesaid.

6. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 13 and 14 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

III. *Amend Count III of the Complaint by adding two additional paragraphs immediately following paragraph 5 on page 7 of the Complaint, such additional paragraphs to read as follows:*

5a. Plaintiff repeats and alleges as part of this claim each and all of the allegations contained in said additional paragraphs 10 and 12 as set forth in section I of this amendment to the Complaint, with like effect as if herein fully set forth.

5b. At the same time National repudiated its said license agreement of October 17, 1929, to-wit, on or about the first day of February, 1948, it repudiated its said license agreement of November 5, 1929, and discontinued the payment of all license fees or royalties payable or to be paid thereunder and refused to be bound by the provisions thereof. U. S. Gypsum acquiesced in such repudiation and thereafter each of the parties thereto treated the said license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform the same.

[fol. 1148] IV. *Amend paragraph (a) of the Prayer, appearing on the last page of the Complaint, to read as follows:*

(a) If the court finds that defendant National is indebted to plaintiff U. S. Gypsum, as alleged in either Count I

hereof as amended by section I of this Amendment, Count II hereof as amended by section II of this Amendment, Count III hereof as amended by section III of this Amendment, or Count IV hereof, that judgment be entered against defendant for the sum of One Million Six Hundred Thousand Dollars ($1,600,000), together with interest and costs of this suit;

Cranston Spray, Robert C. Keck, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Arthur A. Olson, Thiess, Olson Mecklenburger, vonHolst & Coltman, 77 West Washington Street, Chicago 2, Illinois, Bert B. Burnquist, Burnquist, Helsell & Burnquist, State Bank Building, Fort Dodge, Iowa, Attorneys for the Plaintiff.

[fol. 1149] [File endorsement omitted]

UNITED STATES DISTRICT COURT FOR THE NORTHERN DISTRICT OF IOWA, CENTRAL DIVISION

No. 568 Civil

UNITED STATES GYPSUM COMPANY, An Illinois Corporation, Plaintiff

CERTAIN-TEED PRODUCTS CORPORATION, A Maryland Corporation, Defendant

ORDER GRANTING MOTION FOR STAY OF PROCEEDINGS (Copy filed in United States District Court for the District of Columbia, July 29, 1953)

On the 13th day of July, 1953, at 10:30 a.m. at the Federal Court House at Fort Dodge, Iowa, there came on for hearing the motion of the defendant for a stay of proceedings herein pending the determination of certain issues in an action pending in the United States District Court for the District of Columbia, entitled United States of America, plaintiff vs. United States Gypsum Company, et al., defendants, being Civil Action No. 8017.

Cranston Spray, attorney, Chicago, Illinois, Frank H. Helsell and William S. Burnquist, attorneys, Fort Dodge, Iowa, appeared for the plaintiff.

Norman A. Miller, attorney, Chicago, Illinois, and Dwight G. Rider, attorney, Fort Dodge, Iowa, appeared for defendant.

At said hearing counsel for the parties were heard, the said motion submitted to the court, and by it taken under advisement.

And, Now to Wit, on this 13th day of July, 1953, the Court being fully advised in the premises,

It Is Hereby Ordered that said Motion for Stay of Proceedings be granted as prayed, subject to the right of the plaintiff to move to vacate the Stay in the event that it [fol. 1150] should be made to appear that the proceedings in the case pending in the United States District Court for the District of Columbia are not being diligently prosecuted.

Done and Ordered at Fort Dodge, Iowa, this 13th day of July, 1953.

(S.) Henry N. Graven, United States District Judge.

The above is a true copy.

Attest: Lee McNeely, Clerk, by s/s Jane Sullivan, Deputy.

[fol. 1151] In the United States District Court for the District of Columbia

Civil Action No. 8017

[Title omitted]

Brief of Certain-teed Products Corporation in Support of Its Petition for Enforcement of Compliance With Final Decree of May 15, 1951—Filed July 31, 1953

• • • • • • •

[fol. 1152] It is clear that the declaration contained in Article IV that the license agreements were illegal, null and void is sufficient basis for a specific injunction against the

enforcement of those agreements. To argue that because the decree failed to contain an injunction preventing the enforcement of such illegal null and void agreements, is an absurdity and should not be countenanced by this Court. The absence of an injunction against the enforcement of the illegal, null and void agreements cannot stand in the way of specific injunctive implementation by this Court now.

• • • • • • •

[fol. 1153] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

On Petition of National Gypsum Company for Orders, Modifications or Directions for the Enforcement, Construction or Carrying Out of the Final Decree of May 15, 1951

BRIEF FOR THE NATIONAL GYPSUM COMPANY—Filed July 31, 1953

• • • • • • •

[fol. 1154] In any event, it is clear that the declaration contained in Article IV, that these agreements are "illegal, null and void," is sufficient basis for a specific injunction now against enforcement of the agreements. The lack of a prior injunction against enforcement of these agreements might conceivably stand in the way of a contempt citation against USG; it certainly does not stand in the way of specific injunctive implementation of that declaration.

• • • • • • •

[fol. 1155] For all of the reasons heretofore stated, it is submitted that this Court, if it denies the relief prayed for under Claim I of National's Petition, should determine whether USG, as a matter of law, is foreclosed from showing that it has purged its misused patents; and if that issue is also determined adversely to National, this Court

[fol. 1156] should then proceed to hear evidence on the question of whether USG took effective steps to accomplish a purge of its misused patents prior to May 15, 1951.

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[fol. 1157] In any event, there is real question whether, in a case such as this, in which a broadening of the decree is sought, changed circumstances must, in fact, be shown. The rule requiring changed circumstances announced in the *Swift* case is plainly applicable where a defendant subject to an anti-trust decree seeks relief from the provisions thereof. But the Supreme Court has never applied that rule to a case like this in which a modification of the decree is sought in order to effectuate its basic purpose by expanding its scope. Instead, the court has applied the test announced in the *Chrysler Corporation* case—"whether the change served to effectuate or to thwart the basic purpose of the original * * * decree."

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[fol. 1157A] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff

vs.

UNITED STATES GYPSUM COMPANY; NATIONAL GYPSUM COMPANY; Certain-teed Products Corporation; the Celotex Corporation; Ebsary Gypsum Company, Inc.; Newark Plaster Company; Samuel M. Gloyd, Doing Business Under the Name of Texas Cement Plaster Company; Sewell L. Avery; Oliver M. Knode; Melvin H. Baker; Frederick G. Ebsary; and Frederick Tomkins, Defendants

ANSWERS OF UNITED STATES GYPSUM COMPANY TO THE PETITION OF NATIONAL GYPSUM COMPANY FILED HEREIN ON MARCH 25, 1953, TO THE PETITION OF CERTAIN-TEED PRODUCTS CORPORATION FILED HEREIN ON APRIL 22, 1953, TO THE PETITION OF NEWARK PLASTER COMPANY FILED HEREIN ON MAY 15, 1953, TO THE PETITION BY EBSARY GYPSUM COMPANY, INC. FILED HEREIN ON JUNE 3, 1953, AND TO THE PETITION OF THE UNITED STATES OF AMERICA FILED HEREIN ON JUNE 30, 1953—Filed September 9, 1953

[fol. 1158] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF NATIONAL GYPSUM COMPANY FILED HEREIN ON MARCH 25, 1953—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on March 25, 1953 by

National Gypsum Company, hereinafter sometimes referred to as National or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under either of the claims of said petition, nor of the subject matter of either of said claims, for the following reasons:

[fol. 1159] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15, 1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith."

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted

by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by National, as aforesaid, is not a petition for an order, [fol. 1160] etc. herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a "broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale of gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by said petition, for the reason that another court of concurrent jurisdiction, *i.e.*, the United States District Court for the Northern District of Iowa, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the Northern District of Iowa, on the 28th day of January, 1953, entitled *United States Gypsum Company* v. *National Gypsum Company,* Civil Action No. 564.

[fol. 1161] Third Defense

3. For a third defense, and answering each claim and paragraph of said National petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

4. U. S. Gypsum admits the averments contained in the first, second, third and fourth unnumbered paragraphs at the bottom of page 1 and the top of page 2 of said petition, except that this defendant (a) denies the averment that except for paragraphs 9 to 18 the allegations in Claim I set forth facts which are undisputed, (b) denies the averment that paragraphs 9 to 18 relate to claims of U. S. Gypsum made since the entry of the final decree, (c) avers that the claims of U. S. Gypsum referred to in paragraphs 10 through 15 are for the payment for the actual use of a certain patent of U. S. Gypsum by defendants National and Certain-teed during a period prior to May 15, 1951, and for the actual use of certain of U. S. Gypsum's patents by defendants Newark and Ebsary for periods both prior and subsequent to May 15, 1951, and (d) denies that the petition of National states any ground or cause for relief in either Claim I or Claim II.

Specific Answer to Averments of Claim I

5. U. S. Gypsum admits the averment contained in paragraph 1 of the petition, and admits that Article X of the final decree contains the language set forth in paragraph 2 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the final decree.

6. This defendant admits the fact alleged in paragraph 3 of said petition, that on August 15, 1940, the United States of America filed its complaint herein against U. S. Gypsum, six other manufacturers of gypsum products, including the petitioner National, and certain individuals who were [fol. 1162] officers of the defendant companies, charging violation of the Sherman Act, but denies that the allegations regarding said complaint have been accurately or adequately set forth in said paragraph 3 and begs leave to refer to the complaint herein filed for a fuller and more complete statement of the allegations contained therein in

so far as they are pertinent to the matters set forth in said petition.

7. U. S. Gypsum admits the averments contained in paragraphs 4 and 5 of the petition and further answering begs leave to refer to the opinion of this Court of June 15, 1946, and to the findings of fact and conclusions of law filed on August 5, 1946, for a full and accurate statement of the facts alleged in said paragraph 5.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition, except that it admits that on March 8, 1948, the Supreme Court of the United States reversed the order of this Court entered on August 5, 1946, dismissing the case, and rejected certain of the findings of fact and conclusions of law theretofore filed by this Court on August 5, 1946. Further answering, this defendant denies that the decision of the Supreme Court rendered in this cause on March 8, 1948 is accurately or adequately set forth in paragraph 6 of said petition, and begs leave to refer to the decision of the Supreme Court of March 8, 1948, in so far as the same may be pertinent to any of the matters raised by said petition.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition, except as hereinafter expressly qualified or admitted. Further answering, this defendant admits that after remand of this action to the District Court, the Government moved for summary judgment, which the District Court, with Judge Stephens dissenting, granted, and that thereafter judgment was entered in conformity therewith on November 7, 1949; [fol. 1163] admits that the Government and the defendant U. S. Gypsum and its two officers who were individual defendants thereafter appealed to the Supreme Court, and that said judgment was stayed pending said U. S. Gypsum appeal. Further answering, U. S. Gypsum avers that its appeal challenged the propriety of the summary judgment procedure as used in this case and appealed from the granting of any judgment without affording the defendants the right to put in their evidence, and avers that the Government appealed on the ground that the decree of the District Court was inadequate, but U. S. Gypsum begs leave to refer to the appeal papers filed by it on its appeal,

and by the Government on its appeal, for an accurate and complete statement of the reasons for each appeal, and the errors assigned in respect thereto, in so far as such matters may be pertinent to any of the matters raised by said petition.

10. U. S. Gypsum, answering paragraph 8 of said petition, admits the averments to the effect that the appeal of U. S. Gypsum and its associated individual defendants was dismissed by the Supreme Court on May 29, 1950, as appears from 339 U. S. 959; admits the averment to the effect that on or about November 27, 1950, the Supreme Court on the Government's appeal again reversed the case and ordered this Court to modify its decree so as to broaden it in several respects, but denies that the averments with respect to said decree contained in said paragraph 8 accurately or adequately describe the basis of the Supreme Court's decision that this Court's prior decree was inadequate, and begs leave to refer to the decision itself for an accurate and complete statement of its provisions in so far as the same may be pertinent to any of the matters raised by said petition. Further answering the said paragraph 8, this defendant admits that this Court modified its prior decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950, but [fol. 1164] avers that the provisions of Article IV as set forth in the revised decree of May 15, 1951, were precisely the same as the provisions of Article IV of this Court's original decree of November 7, 1949, and that Articles III, IV and V of the May 15, 1951 decree taken together show that this Court as well as the Supreme Court were primarily concerned with concerted action in fixing, maintaining and stabilizing the prices, terms and conditions of sale of gypsum products by patent license agreements or other course of action. Further answering said paragraph 8, U. S. Gypsum recognizes that petitioner, National, has adopted the terms "unlawful license" and "mis-used patent", respectively, to describe the license agreements adjudicated unlawful by said Article IV of this Court's decree of May 15, 1951, and the patents licensed by U. S. Gypsum under any one or more of said licenses, but denies the appropriateness or propriety of such nomenclature for the purpose of National's said petition, or otherwise.

11. U. S. Gypsum denies each and every allegation contained in paragraph 9 of said petition, except as herein otherwise expressly admitted or qualified. Further answering this defendant avers that National paid royalties due under its license of October 17, 1929, with U. S. Gypsum until March 20, 1948, when royalties for the month of February 1948 would have been due, at which time National repudiated its said license agreement and ceased paying royalties. Further answering, this defendant admits that National thereafter paid no royalties to it under said license of October 17, 1929, and that defendant licensees Newark, Ebsary and Certain-teed, also failed to pay royalties to U. S. Gypsum under their respective licenses from approximately February 1, 1948 in the case of Newark, and March 1, 1948 and April 1, 1948, respectively, in the case of Ebsary and Certain-teed. Further answering, this [fol. 1165] defendant admits that subsequent to May 15, 1951, National and Certain-teed entered into new license agreements with it, retroactive to May 15, 1951, wherein each of said companies was licensed under U. S. Gypsum's Roos Patent No. 2,017,022, and that Ebsary and Newark did not enter into any new license agreement with this defendant after May 15, 1951, and avers that the said license agreements which it entered into with National and with Certain-teed subsequent to May 15, 1951, as aforesaid, each provided for the payment of royalty by the licensee at the rate of one per cent (1%) of licensee's selling price of all gypsum board manufactured under or by the use of any of the processes or embodying any of the inventions covered by said Patent No. 2,017,022, and sold by the licensee during the term of said license, except on export sales, but avers that this defendant is without information sufficient to form a belief as to the truth of the averment that said National and Certain-teed have duly paid all royalties under their respective license agreements from May 15, 1951, until the expiration of said patent, the final audit with respect thereto not having as yet been made. Further answering, U. S. Gypsum avers that under date of May 16, 1951, it communicated in writing with National and each of the other defendant licensees, declaring its intention to comply strictly with the provisions of the decree in every respect, and that in said written

communication U. S. Gypsum referred to the license agreements, all of the provisions of which have "heretofore become and now are wholly cancelled and of no effect", and referred to the fact that royalties had not been paid under such agreements nor had U. S. Gypsum sought to compel such royalties, but had merely "stood upon its right to be compensated for the reasonable value of any use" any such defendant licensee may have made of U. S. Gypsum's patents. Further answering, U. S. Gypsum avers that in the written communications originally submitting a form of license to National upon its application [fol. 1166] therefor under said decree of May 15, 1951, in the written communication transmitting such license to National for final execution, and in the written communication acknowledging receipt of the first royalty payment by National thereunder, U. S. Gypsum stated that nothing done in that connection should be construed as a waiver or release of any claim it might have against National for any use which it may have made of Patent No. 2,017,022, or any other patent or patents of U. S. Gypsum.

12. U. S. Gypsum denies each and every averment contained in paragraph 10 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum avers that prior to the filing of said National petition, U. S. Gypsum had filed separate suits against National and against Certain-teed in the United States District Court for the Northern District of Iowa, against Ebsary in the United States District Court for the Southern District of New York, and against Newark in the United States District Court for the District of New Jersey, seeking in each instance to recover compensation due U. S. Gypsum for the use of its patents by said respective defendants during the period commencing on or about February 1, 1948, for National and Newark, commencing on or about March 1, 1948, for Ebsary, and commencing on or about April 1, 1948, for Certain-teed, and extending to May 15, 1951, in the case of said National and Certain-teed, and subsequent thereto in the case of said Newark and Ebsary. In each of said suits various claims were set forth in five or more counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between the plaintiff and de-

fendant therein, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, whereas other counts were based upon the use of one or more of U. S. Gypsum's patents [fol. 1167] by the respective defendants without any express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in each of said suits, copies of which are set forth as Exhibits "A", "B", "C", and "D", to National's petition for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims, as set forth in said respective suits.

13. U. S. Gypsum denies each and every averment contained in paragraph 11 of said petition, except that it admits that on January 28, 1953, it commenced an action in the United States District Court for the Northern District of Iowa against National, a copy of which complaint is attached to said National petition as Exhibit "A", and except that it admits that one of the five alternative counts in said complaint claims $1,600,000 royalties under said National license and another count alleges infringement of its U. S. Gypsum's Roos Patent No. 2,017,022 for the period from February 1, 1948 to May 15, 1951.

14. U. S. Gypsum denies each and every averment contained in Paragraph 12 of the petition, except that it admits that on or about February 27, 1953, it commenced an action in the United States District Court for the Southern District of New York against Ebsary Gypsum Company, a copy of which complaint is attached to said National petition as Exhibit "B", and except that it admits that one of the six alternative counts in said complaint claims $100,000 royalties under U. S. Gypsum's license agreement with Ebsary dated October 18, 1929, and that one of said alternative counts alleges infringement of U. S. Gypsum's Roos Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and another of said counts alleges infringement of U. S. Gypsum's Roos Patent No. 2,044,401.

15. U. S. Gypsum denies each and every averment con- [fol. 1168] tained in Paragraph 13 of the petition, except that it avers that on or about January 30, 1953, it commenced an action in the United States District Court for

the District of New Jersey against Newark Plaster Company, a copy of which complaint is attached to said National petition as Exhibit "C", and except that it admits that one of the six alternative counts in said complaint claims $120,000 royalties under U. S. Gypsum's license agreement with Newark dated April 23, 1930, and another of said counts alleges infringement of U. S. Gypsum's Roos Patent Nos. 2,017,022, 2,079,338 and 2,080,009, and another of said counts alleges infringement of U. S. Gypsum's Roos Patent No. 2,044,401.

16. U. S. Gypsum denies each and every averment contained in Paragraph 14 of the petition, except that it avers that on or about March 11, 1953, it commenced an action in the United States District Court for the Northern District of Iowa against Certain-teed Products Corporation, a copy of which complaint is attached to said National petition as Exhibit "D", and except that it admits that one of the five alternative counts in said complaint claims $650,000 royalties under U. S. Gypsum's license agreement of October 15, 1929, with Certain-teed, and another of said counts alleges infringement of U. S. Gypsum's Roos patent No. 2,017,022 for the period from April 1, 1948 to May 15, 1951.

17. U. S. Gypsum denies each and every averment contained in Paragraph 15 of the petition, except that it admits it has asserted claims against The Celotex Corporation for compensation for the use of U. S. Gypsum's patents by Celotex during a period prior to May 15, 1951, and admits that it has asserted claims against Kaiser Gypsum Company for compensation for use which Kaiser has made of various of U. S. Gypsum's patents, a copy of a notice of infringement to Kaiser dated July 25, 1952, and correspondence relevant thereto being attached to said National petition as Exhibit "E".

[fol. 1169] 18. U. S. Gypsum denies each and every averment contained in paragraphs 16, 17 and 18 of said petition except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum avers that in essence U. S. Gypsum's suits in other District Courts against National, Ebsary, Newark and Certain-teed constitute actions (1) to recover unpaid royalties against said defendants under their respective license agreements on the theory

that the agreement to pay royalties is severable and that the combination held to be in restraint of trade notwithstanding the validity of each separate license agreement is collateral to the license agreement as such, and (2) in the alternative to recover the fair and reasonable value for the actual use of said letters patent by said defendants based upon the facts that they repudiated their respective license agreements about the time of the decision of the Supreme Court on March 8, 1948, and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative that subsequent to such repudiation the defendants, by the use of said patents, without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sums set forth in said complaints. U. S. Gypsum specifically denies that the said final decree in adjudging said licenses unlawful and null and void thereby barred U. S. Gypsum from enforcing against defendants in any manner directly or indirectly or under any legal theory its said claims as aforesaid. U. S. Gypsum further specifically denies that its said suits in other District Courts against said companies constituted a circumvention of the final decree of this Court. U. S. Gypsum further denies that the question of its right to sue in any court of competent jurisdiction for compensation for past use of its said patents was before this Court at the time the decree of May 15, 1951 was entered, or that there was any misuse of its patents by U. S. Gypsum which resulted [fol. 1170] in the suspension of its right to recover on said claims. U. S. Gypsum further denies that this Court has primary jurisdiction over the questions raised by defendants in their said petitions for the reasons set forth in paragraphs 1 and 2 of this Answer.

Specific Answer to Averments of Claim II

19. U. S. Gypsum adopts and restates as its answer to Paragraph 19 of the petition, each and every denial, admission, qualification and averment contained in its answers to Paragraphs 1 to 18 of the petition as hereinabove set forth, in Paragraphs 5 to 18, both inclusive, of this answer.

20. U. S. Gypsum admits the averments contained in Paragraph 20 of the petition, but further answering avers that there was no obligation upon it to request the Court

at that time to adjudicate its right to compensation for the defendant-licensees' use of its patents during the period following the first Supreme Court decision on March 8, 1948, or to submit any provision in the proposed final decree requiring the defendant licensees to pay said royalties, for the reason that such questions were not then before the Court. Further answering, U. S. Gypsum avers that defendant National, after it repudiated its said license agreements and ceased paying royalties thereunder as aforesaid, continued nevertheless to use U. S. Gypsum's patents, with notice that U. S. Gypsum expected to be paid for any use thereof by National in the manufacture and sale of gypsum board, and that U. S. Gypsum was asserting its right to such compensation for the actual use of its patents during said period.

21. U. S. Gypsum denies each and every averment contained in paragraph 21 of the petition and denies each and every averment contained in each of the separately lettered [fol. 1171] paragraphs A, B, C, D, E, F and G of said paragraph 21. Further answering said paragraph 21 with particular reference to subparagraph H thereof, U. S. Gypsum avers that it had determined to accept the decree of this Court entered November 7, 1949, provided an appeal was not taken from the decree by the Government but that when the Government perfected its appeal on January 6, 1950, U. S. Gypsum determined that it had no alternative except to appeal from said decree in order to present to the Supreme Court at the same time U. S. Gypsum's contention that it had not had its day in court or an opportunity to present its evidence to establish that it had entered into no agreement to violate the Sherman Act under its said patent licenses or otherwise and that this position was duly asserted by U. S. Gypsum from the time it filed its appeal papers on January 6, 1950 until its appeal was dismissed by action of the Supreme Court on May 29, 1950. U. S. Gypsum avers that following the entry of the order dismissing its appeal it accepted the dismissal and continued to assert, in opposition to the Government's appeal, that the final decree adjudicating a violation of the Sherman Act could find support only upon the narrow issue that the defendants had acted in concert under the license agreements and accepting as true the facts in defendants' proof by

proffer and assuming the validity of each separate license agreement when made; that the Supreme Court examined the Government's objections to the decree upon that basis alone and held that the defendants acted in concert through the fixed price licenses notwithstanding "the assumed validity of each separate patent license" (333 U. S. at p. 401) and "accepting as true the underlying facts in defendants' proof by proffer" (340 U. S. at p. 88). U. S. Gypsum further avers, that in fact the minimum price bulletins under the said license agreements had all been cancelled and [fol. 1172] withdrawn upon the expiration of the Haggerty patent on July 8, 1941; that no other such bulletins or prices were issued thereafter by U. S. Gypsum as licensor or otherwise, so that there were no prices or terms or conditions of sale fixed, maintained or stabilized under said licenses at any time since July 8, 1941; and that the said licensees, including National, continued to manufacture and sell gypsum board under their respective licenses and to pay royalty therefor until the first Supreme Court decision on March 8, 1948. U. S. Gypsum further avers that on or about the rendering of the first Supreme Court decision on March 8, 1948, the various licensees, including National, repudiated their respective license agreements and discontinued payment of all license fees or royalties payable or to be paid thereunder, and refused to be bound by any of the provisions thereof, and thereafter neither of the parties took any action to comply with or enforce any of the provisions thereof or to require the other to perform the same during the period for which U. S. Gypsum seeks compensation in the said Iowa suit for National's use of its patent. U. S. Gypsum denies that during the period from February 1, 1948, to May 15, 1951, it continued any illegal patent practice as alleged in the Government's complaint or that during such time it conducted its patent licensing, sales, price or distribution policies in accordance with the terms of any unlawful licenses.

Wherefore U. S. Gypsum prays that the petition be dismissed with costs.

United States Gypsum Company, by Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Its Attorneys.

[fol. 1173] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1174] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF CERTAIN-TEED PRODUCTS CORPORATION, FILED HEREIN ON APRIL 22, 1953—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on April 22, 1953, by Certain-teed Products Corporation, hereinafter sometimes referred to as Certain-teed or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under the claims of said petition, nor of the subject matter of the said claims, for the following reasons:

[fol. 1175] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15, 1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith".

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had

acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by Certain-teed, as aforesaid, is not a petition for an order, etc. herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance [fol. 1176] therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a "broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale or gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by the said petition, for the reason that another court of concurrent jurisdiction, *i. e.*, the United States District Court for the Northern District of Iowa, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the Northern District of Iowa, on the 11th day of March, 1953, entitled *United States Gypsum Company* v. *Certain-teed Products Corporation*, Civil Action No. 568.

Third Defense

3. For a third defense, and answering each claim and paragraph of said Certain-teed petition, U. S. Gypsum avers with respect to each claim and paragraph as follows: [fol. 1177] 4. U. S. Gypsum admits the averment contained in paragraph 1 of said petition, and admits that Articles II, IV and X of the final decree contain the language set forth in paragraph 2 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the final decree.

5. U. S. Gypsum admits the averments contained in paragraph 3 of said petition, except that it denies that subparagraph (a) thereof accurately describes the royalty provision contained in the agreement dated October 15, 1929 and denies that subparagraph (e) thereof accurately describes the provisions contained in said agreement regarding the keeping and inspection of books of account and records. Further answering, U. S. Gypsum avers that under said agreement Certain-teed agreed to pay U. S. Gypsum, from the date of said agreement, royalties at different rates for defined periods of the agreement, and under said agreement, Certain-teed agreed to pay U. S. Gypsum an amount equivalent to one percent (1%) of the Certain-teed selling price on all plaster board and gypsum board manufactured and

sold by it between July 8, 1941, and the date of expiration of the last expiring patent issued upon certain applications then pending in the United States Patent Office, including an application filed by Carlisle K. Roos, which application was granted on October 8, 1935, by the issuance of United States Patent No. 2,017,022 to U. S. Gypsum, as assignee of said Roos application, and begs leave to refer to said agreement dated October 15, 1929, for a fuller and more complete statement of its provisions in so far as they are pertinent to the matters set forth in said petition.

6. This defendant admits the fact alleged in paragraph 4 of said petition, that on August 15, 1940, the United States of America filed its complaint herein against U. S. Gypsum, Certain-teed and others charging violations of the Sherman [fol. 1178] Act, but denies that the allegations regarding said complaint have been accurately or adequately set forth in said paragraph 4 and begs leave to refer to the complaint herein filed for a fuller and more complete statement of the allegations contained therein in so far as they are pertinent to the matters set forth in said petition.

7. U. S. Gypsum denies each and every averment contained in paragraph 5 of said petition, except that it admits that on March 8, 1948, the Supreme Court of the United States reversed the judgment of this Court dismissing plaintiff's complaint. Further answering, this defendant denies that the decision of the Supreme Court rendered in this cause on March 8, 1948, is accurately or adequately set forth in paragraph 5 of said petition, and begs leave to refer to the decision of the Supreme Court of March 8, 1948, in so far as the same may be pertinent to any of the matters raised by said petition.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition, except as hereinafter expressly qualified or admitted. Further answering, this defendant admits that after remand of this action to the District Court, plaintiff moved for summary judgment, which the District Court, with Judge Stephens dissenting, granted, and avers that thereafter judgment was entered in conformity therewith on November 7, 1949; admits that plaintiff and defendant U. S. Gypsum thereafter appealed to the Supreme Court, and that the appeal of U. S. Gypsum

was dismissed by the Supreme Court on May 29, 1950, as appears from 339 U. S. 959, 960 and further admits that in an order then entered the Supreme Court affirmed Article III of this Court's decree of November 7, 1949, and enjoined the corporate defendants and an individual, doing business as Texas Cement Plaster Company, as is partially set forth in said paragraph 6, but denies that said dismissal order is adequately set forth in said paragraph 6 of said petition, [fol. 1179] and begs leave to refer to the order of the Supreme Court of May 29, 1950, in so far as the same may be pertinent to any of the matters raised by said petition. Further answering, this defendant avers that it had decided to accept the decree of this Court entered November 27, 1949, but that when the Government decided to appeal this defendant determined that it had no alternative except to appeal also in order to present to the Supreme Court at the same time its contention that it had not had its day in court and had not been afforded an opportunity to present its evidence to establish that it had not violated the Sherman Act by reason of industry-wide patent licenses or otherwise. Further answering, this defendant avers that during the period of its said appeal, it took no action in performance of any of the provisions of said license of October 15, 1929, or to require performance thereof by Certain-teed.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition, except that it admits that on November 27, 1950, the Supreme Court in 340 U. S. 76 on the Government appeal ordered this Court to modify its decree so as to broaden it in several respects. Further answering, this defendant denies that the decision of the Supreme Court rendered in this cause on November 27, 1950, is accurately or adequately described in paragraph 7 of said petition, and begs leave to refer to the decision of the Supreme Court of November 27, 1950, in so far as the same may be pertinent to any of the matters raised by said petition.

10. U. S. Gypsum, answering paragraph 8 of said petition, admits that this Court modified its prior decree of November 7, 1949, in accordance with the Supreme Court's opinion of November 27, 1950, and on May 15, 1951, entered its final decree, but denies the other averments of said

[fol. 1180] paragraph 8. Further answering, this defendant avers that the provisions of Articles II, III, IV and X theretofore referred to in said petition, as set forth in the final decree of May 15, 1951, were precisely the same as the corresponding provisions of Articles II, III, IV and X of this Court's original decree of November 7, 1949, and that Articles III, IV and V of the May 15, 1951, decree taken together show that this Court as well as the Supreme Court were primarily concerned with concerted action in fixing, maintaining and stabilizing the prices, terms and conditions of sale of gypsum products by patent license agreements or other course of action.

11. U. S. Gypsum denies each and every allegation contained in paragraph 9 of said petition, except as herein otherwise expressly admitted or qualified. Further answering, this defendant avers that Certain-teed paid royalties due under its license of October 15, 1929, with U. S. Gypsum until May 20, 1948, when royalties for the month of April, 1948, would have been due, at which time Certain-teed repudiated its said license agreement and ceased paying royalties. Further answering, this defendant admits that Certain-teed thereafter paid no royalties to it under said license of October 15, 1929, and avers that Certain-teed nevertheless continued to use U. S. Gypsum's patents, including said Patent No. 2,017,022, without paying therefor and although it was fully advised during the entire period of such use that U. S. Gypsum expected to be paid for any use which was made of its patents and was asserting its right to compensation for Certain-teed's actual use thereof.

12. U. S. Gypsum denies each and every allegation contained in paragraph 10 of said petition, except as herein otherwise expressly admitted or qualified. Further answering, this defendant admits that on or about November 9, 1951, Certain-teed entered into a new license agreement, [fol. 1181] pursuant to this Court's final decree, in which U. S. Gypsum licensed Certain-teed under Patent No. 2,017,022, said license providing for royalties payable from and after May 15, 1951, and that said new license agreement contained no reference to any past due royalties, and avers that the said new license agreement provided for royalty at one per cent (1%) of the licensee's selling price of all gypsum board manufactured and sold under the license embody-

ing or made by the use of any of the claims of said patent, and further avers that this defendant is without information sufficient to form a belief as to the truth of the averment that Certain-teed paid the royalties required of it under said new license agreement until the expiration of said patent on October 8, 1952, the final audit with respect thereto not having as yet been made. Further answering, this defendant admits that it did not present to this Court prior to the entry of the final decree its claims for royalties against Certain-teed, but avers that this Court knew prior to the entry of its final decree that Certain-teed as licensee had ceased paying royalties to this defendant shortly after the first decision of the Supreme Court on March 8, 1948, and that this defendant had never waived or given up its claim for such royalties, and further avers that there was no obligation or duty upon this defendant to so inform or advise the Court and that at the time the said decree of May 15, 1951, was entered there was no question before this Court with respect to which such facts would be pertinent or relevant. Further answering, this defendant admits that it did not seek to recover such unpaid royalties as a condition to granting Certain-teed a new license as provided for in the final decree of this Court, but this defendant specifically denies that no claim for such unpaid royalties was made by it in the negotiation of said new license agreement, and further specifically denies that payments [fol. 1182] of royalties under said new license agreement were accepted by this defendant without any reservation of rights or claim to said past due royalties, and avers that, on the contrary, that on or about May 16, 1951, U. S. Gypsum sent to each of the defendant licensees herein a letter relating, among other things, to U. S. Gypsum's position as to prior use of its patents without paying therefor, a copy of the letter so sent to Certain-teed being attached hereto as Exhibit A and made a part hereof; and further avers that in the written communication originally submitting the form of said new license to Certain-teed, in the written communication transmitting it for final execution, and in the communication acknowledging receipt of the first royalty payment thereunder, U. S. Gypsum clearly stated that nothing done in that connection should be construed as a waiver or release of any claim it might have against Cer-

tain-teed for any use which Certain-teed may have made of said patent or of any of this defendant's other patents. Further answering, this defendant specifically denies that it suppressed or concealed from this Court in any way whatsoever that it intended to assert a claim for said unpaid royalties against Certain-teed, as averred in said petition or otherwise.

13. U. S. Gypsum denies each and every averment contained in paragraph 11 of said petition, except that it admits that on or about March 11, 1953, it filed suit against Certain-teed in the United States District Court for the Northern District of Iowa, Central Division, a copy of which complaint is attached to Certain-teed's petition as Exhibit A. Further answering, this defendant denies that said complaint against Certain-teed is accurately or adequately set forth in paragraph 11 of said petition, and begs leave to refer to said complaint, in so far as the same may be pertinent to any of the matters raised by said petition. [fol. 1183] 14. U. S. Gypsum denies each and every averment contained in paragraphs 12 and 13 of said petition.

15. U. S. Gypsum denies each and every averment contained in paragraphs 14 and 15 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum avers that in essence, U. S. Gypsum's suit against Certain-teed constitutes an action (1) to recover unpaid royalties against Certain-teed under its license agreement on the theory that the agreement to pay royalties is severable and that the combination held to be in restraint of trade notwithstanding the validity of such license agreement is collateral to the license agreement as such, (2) in the alternative to recover the fair and reasonable value for the actual use of said letters patent by Certain-teed based on the facts that Certain-teed repudiated its license agreement about the time of the decision of the Supreme Court on March 8, 1948, and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative that subsequent to such repudiation Certain-teed by its use of said patent, without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sums set forth in said complaint. U. S. Gypsum specifically denies that the said final decree in adjudging said

license unlawful and null and void prevented or barred U. S. Gypsum from enforcing against Certain-teed in any manner directly or indirectly any provision of said license. U. S. Gypsum further specifically denies that its said suit filed against Certain-teed is an attempt to circumvent or avoid the final decree of this Court. U. S. Gypsum further denies that it misused its patents, including Patent 2,-017,022, and that the alleged misuse continued until the execution of the said new license agreement dated November 9, 1951, or any other date. U. S. Gypsum further denies that the question of its right to sue in any court of competent jurisdiction for compensation for past use of its [fol. 1184] patents was before this Court at the time the decree of May 15, 1951, was entered, or that it was under any duty to apply for and secure a determination of this Court that it had terminated the alleged patent misuse and that the consequences thereof had been dissipated, and that in having failed so to apply it is now barred from claiming compensation for the period prior to May 15, 1951.

16. U. S. Gypsum denies each and every averment contained in paragraph 16 of said petition. Further answering, this defendant avers that the matters raised in Certain-teed's petition constitute defenses to said suit heretofore filed in the United States District Court for the Northern District of Iowa, Central Division, which is a court of competent jurisdiction, capable of adjudicating such defenses.

17. U. S. Gypsum denies each and every averment contained in paragraph 17 of said petition.

Wherefore, U. S. Gypsum prays that the said petition be dismissed.

United States Gypsum Company, By Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Its Attorneys.

[fol. 1185] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1186] EXHIBIT A TO ANSWER

May 16, 1951.

Certain-teed Products Corporation,
120 East Lancaster Avenue,
Ardmore, Pennsylvania.

Gentlemen:

We are advised that on May 15, 1951, the District Court entered its final decree in Equity Case No. 8017. Referring to Article VI of the decree, we shall be glad to grant you a license in accordance with the provisions thereof. Your application should be in writing specifying the patents you desire to use.

It is needless to say that we intend in every respect strictly to comply with the provisions of the decree. In order that there may be no misunderstanding of our position with respect to the signed license agreements now in your hands and in ours, the same and all of the provisions thereof have heretofore become and now are wholly cancelled and of no effect.

In this connection you will recall that on July 8, 1941, we cancelled all price bulletins theretofore issued under the license agreements specifically described in the decree and no prices or terms or conditions of sale of gypsum board have since been fixed or promulgated thereunder. Since March, 1948, the Supreme Court having rendered its opinion on March 8, 1948, no royalties have been paid by you as provided in your former license agreements, nor have we sought to collect such royalties. We have merely stood upon our right to be compensated for the reasonable value of any use you may have made of our patents.

Very truly yours, United States Gypsum Company,
by —— ——, President.

[fol 1187] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF NEWARK PLASTER COMPANY FILED HEREIN ON MAY 15, 1953 —Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on May 15, 1953, by Newark Plaster Company, hereinafter sometimes referred to as Newark or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under the claim of said petition, nor of the subject matter of said claim, for the following reasons:

[fol. 1188] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15, 1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith".

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements

is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V, that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by Newark, as aforesaid, is not a petition for an order, [fol. 1189] etc., herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a "broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale of gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should

be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by the petition, for the reason that another court of concurrent jurisdiction, *i. e.*, the United States District Court for the District of New Jersey, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the District of New Jersey, on the 30th day of January, 1953, entitled *United States Gypsum Company* v. *Newark Plaster Company,* Civil Action No. 93-53.

[fol. 1190] Third Defense

3. For a third defense, and answering each claim and paragraph of said Newark petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

4. U. S. Gypsum admits the averments contained in paragraphs 1 and 2 of said petition, and further answering begs leave to refer to the final decree entered by this Court on May 15, 1951, for a fuller and more complete statement of its contents in so far as they are pertinent to the matters set forth in said petition.

5. U. S. Gypsum denies each and every averment contained in paragraph 3 of said petition, except that it admits that on March 8, 1948, the United States Supreme Court rendered its opinion on the first appeal in Civil Action 8017 (333 U. S. 364), and further answering specifically denies that the averment with respect to its decision contained in said paragraph 3 accurately quotes from or describes the basis of the Supreme Court's decision, and begs leave to refer to the decision itself for an accurate and complete statement of its provisions in so far as the same may be pertinent to any of the matters raised by said petitioner.

6. U. S. Gypsum denies each and every averment contained in paragraph 4 of said petition, except as hereinafter expressly admitted or qualified. Further answering U. S. Gypsum admits that on or about January 30, 1953,

it commenced an action against Newark in the United States District Court for the District of New Jersey, and avers that in said suit various claims were set forth in six counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between U. S. Gypsum and Newark, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, and the other counts were based [fol. 1191] upon the use of U. S. Gypsum's patents by Newark without any express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in said suit, a copy of which is attached to the petition of National Gypsum Company, hereinafter sometimes referred to as National, as Exhibit "C," for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims against Newark, as set forth in said suit.

7. U. S. Gypsum denies each and every averment contained in paragraph 5 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum admits that it has filed separate suits against National and against Certain-teed Products Corporation, hereinafter sometimes referred to as Certain-teed, in the United States District Court for the Northern District of Iowa, Central Division, and against Ebsary Gypsum Company, Inc., hereinafter sometimes referred to as Ebsary, in the United States District Court for the Southern District of New York, each of whom is a defendant herein, and avers that in each instance these suits seek to recover compensation due U. S. Gypsum for the use of its patents by said respective Defendants during the period commencing on or about February 1, 1948, for National, commencing on or about March 1, 1948, for Ebsary, and commencing on or about April 1, 1948 for Certain-teed, and extending to May 15, 1951, in the case of said National and Certain-teed, and subsequent thereto in the case of said Ebsary. In each of said suits various claims were set forth in five or more counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between the plaintiff and defendant therein, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, whereas other

counts were based upon the use of one or more of U. S. Gypsum's patents by the respective defendants without any [fol. 1192] express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in each of said suits, copies of which are set forth as Exhibits "A," "B" and "D" attached to the petition herein of National, dated March 25, 1953, for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims, as set forth in said respective suits.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition and of paragraph 21 of Claim II of the petition herein of National, dated March 25, 1953, which is incorporated by reference in said paragraph 7. Further answering said paragraph 7, this defendant incorporates herein by reference with the same force and effect as if herein fully set forth paragraph 21 of its answer to paragraph 21 of the said petition of National.

10. U. S. Gypsum admits that Article X of this Court's decree of May 15, 1951, contains the language set forth in paragraph 8 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the said decree.

11. U. S. Gypsum denies each and every averment contained in paragraph 9 of said petition. Further answering U. S. Gypsum avers that in essence U. S. Gypsum's suit against Newark constitutes an action (1) to recover unpaid royalties against said defendant under its license agreement on the theory that the agreement to pay royalties is severable and that the combination held to be in restraint of trade in this case notwithstanding the validity of each separate license agreement, including the Newark agreement, is collateral to the license agreement as such, and (2) in the alternative to recover the fair and reasonable [fol. 1193] value of the actual use of said letters patent by said defendant based upon the facts that Newark repudiated its said license agreement about the time of the decision of the Supreme Court on March 8, 1948 and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative

that subsequent to such repudiation, Newark, by the use of said patents without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sum set forth in its complaint. U. S. Gypsum further denies that this Court has primary jurisdiction over the questions raised by Newark in its said petition for the reasons set forth in paragraphs 1 and 2 of this answer.

Wherefore, U. S. Gypsum prays that the petition be dismissed with costs.

United States Gypsum Company, by Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Its Attorneys.

[fol. 1194] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1195] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF EBSARY GYPSUM COMPANY, INC., FILED HEREIN ON JUNE 3, 1953—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this defendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on June 3, 1953, by Ebsary Gypsum Company, Inc., hereinafter sometimes referred to as Ebsary or the petitioner, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved under the claim of said petition, nor of the subject matter of said claim, for the following reasons:

[fol. 1196] (a) This Court made a limited reservation of jurisdiction in Article X of its decree of May 15,

1951, jurisdiction of the cause and of the parties being retained solely for the purpose of enabling any of the parties to this decree, or any other party hereafter becoming bound thereby in whole or in part, to apply to the Court for "such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or the carrying out of this decree, and (2) for the enforcement of compliance therewith".

(b) The decree of May 15, 1951, did not contain any provision enjoining defendant U. S. Gypsum from suing for the use of its patents for any period prior to the date of the decree. In substance the said decree provided by Article III that the defendant companies had acted in concert to fix, maintain and control the prices of gypsum board in violation of the Sherman Act; by Article IV that each of the license agreements is adjudged unlawful under the antitrust laws and illegal, null and void; and by Article V that each of the defendant companies is enjoined from entering into or performing any agreement among the defendant companies or other manufacturers to fix, maintain or stabilize by patent license agreements or other acts or course of action, the prices or terms or conditions of sale of gypsum products and from engaging in, pursuant to any such agreement, any of the acts or practices specifically listed in said Article V. Articles VI, VII, VIII and IX provided that U. S. Gypsum shall grant licenses to others upon reasonable royalties without any price-fixing provisions; that the decree shall have no effect upon operations or activities permitted by act of Congress; that representatives of the Department of Justice shall have access to the books and records of defendant companies for the purpose of securing compliance with the decree; and that judgment is entered against defendants for costs, respectively.

(c) The petition hereinbefore filed in this cause by Ebsary, as aforesaid, is not a petition for an order, etc. [fol. 1197] herein (1) for the construction or carrying out of the decree, or (2) for the enforcement of compliance therewith, but on the contrary is an attempt to insert new provisions in the decree and to obtain a

"broadening of the decree" and an adjudication by this Court on a question which was not before this Court at the time it entered either its decree of November 7, 1949 or its decree of May 15, 1951.

(d) This Court does not have jurisdiction, inherent or otherwise, to modify the decree of May 15, 1951, to enlarge its injunctive provisions to cover matters not before the Court at the time the decree was entered, or to change the injunctive provisions from those which were designed only to enjoin agreements or practices fixing, maintaining or stabilizing the prices, terms or conditions of sale of gypsum products by license agreements or other course of action.

This Court being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, U. S. Gypsum avers that this Court ought not to take jurisdiction of the matters presented by the petition, for the reason that another court of concurrent jurisdiction, *i. e.*, the United States District Court for the Southern District of New York, has already assumed jurisdiction thereof by reason of the suit heretofore filed in said United States District Court for the Southern District of New York, on the 27th day of February, 1953, entitled *United States Gypsum Company* v. *Ebsary Gypsum Company, Inc.*, Civil Action No. 83-83.

[fol. 1198] Third Defense

3. For a third defense, and answering each claim and paragraph of said Ebsary petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

4. U. S. Gypsum admits the averments contained in paragraphs 1 and 2 of said petition, and further answering begs leave to refer to the final decree entered by this Court on May 15, 1951 for a fuller and more complete statement of its contents in so far as they are pertinent to the matters set forth in said petition.

5. U. S. Gypsum denies each and every averment contained in paragraph 3 of said petition, except that it admits that on March 8, 1948, the United States Supreme Court rendered its opinion on the first appeal in Civil Action 8017 (333 U. S. 364), and further answering specifically denies that the averment with respect to its decision contained in said paragraph 3 accurately describes the basis of the Supreme Court's decision, and begs leave to refer to the decision itself for an accurate and complete statement of its provisions in so far as the same may be pertinent to any of the matters raised by said petition.

6. U. S. Gypsum denies each and every averment contained in paragraph 4 of said petition, except as hereinafter expressly admitted or qualified. Further answering U. S. Gypsum admits that on or about February 27, 1953, it commenced an action against Ebsary in the United States District Court for the Southern District of New York, and avers that in said suit various claims were set forth in six counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between U. S. Gypsum and Ebsary, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, and the other counts were based upon the use of U. S. Gypsum's patents by Ebsary [fol. 1199] without any express contract right to do so. Further answering, this defendant begs leave to refer to the complaint filed in said suit, a copy of which is attached to the petition of National Gypsum Company, hereinafter sometimes referred to as National, as Exhibit "B", for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims against Ebsary, as set forth in said suit.

7. U. S. Gypsum denies each and every averment contained in paragraph 5 of said petition, except as hereinafter expressly admitted or qualified. Further answering, U. S. Gypsum admits that it has filed separate suits against National and against Certain-teed Products Corporation, hereinafter sometimes referred to as Certain-teed, in the United States District Court for the Northern District of Iowa, Central Division, and against Newark Plaster Company, hereinafter sometimes referred to as Newark, in the United

States District Court for the District of New Jersey, each of whom is a defendant herein, and avers that in each instance these suits seek to recover compensation due U. S. Gypsum for the use of its patents by said respective defendants during the period commencing on or about February 1, 1948, for National and Newark, and commencing on or about April 1, 1948 for Certain-teed, and extending to May 15, 1951 in the case of said National and Certain-teed, and subsequent thereto in the case of said Newark. In each of said suits various claims were set forth in five or more counts, of which one count was based upon a claim for royalties under the license agreement theretofore existing between the plaintiff and defendant therein, and a second count was based upon a claim for royalties under said license agreement, as amended by the parties, whereas other counts were based upon the use of one or more of U. S. Gypsum's patents by the respective defendants without any express contract right to do so. Further answering, this defendant [fol. 1200] begs leave to refer to the complaint filed in each of said suits, copies of which are set forth as Exhibits "A", "C" and "D" attached to the petition herein of National, dated March 25, 1953, for a more accurate and adequate statement of the basis of U. S. Gypsum's several claims, as set forth in said respective suits.

8. U. S. Gypsum denies each and every averment contained in paragraph 6 of said petition.

9. U. S. Gypsum denies each and every averment contained in paragraph 7 of said petition and of paragraph 21 of Claim II of the petition herein of National, dated March 25, 1953, which is incorporated by reference in said paragraph 7. Further answering said paragraph 7, this defendant incorporates herein by reference with the same force and effect as if herein fully set forth paragraph 21 of its answer to paragraph 21 of the said petition of National.

10. U. S. Gypsum admits that Article X of this Court's decree of May 15, 1951, contains the language set forth in paragraph 8 of said petition, but denies that said petition is made, or could be made, pursuant to said Article X of the said decree.

11. U. S. Gypsum denies each and every averment contained in paragraph 9 of said petition. Further answering

U. S. Gypsum avers that in essence U. S. Gypsum's suit against Ebsary constitutes an action (1) to recover unpaid royalties against said defendant under its license agreement on the theory that the agreement to pay royalties is severable and that the combination held to be in restraint of trade in this case notwithstanding the validity of each separate license agreement, including the Ebsary agreement, is collateral to the license agreement as such, and (2) in the alternative to recover the fair and reasonable value of the actual use of said letters patent by said defendant based upon the facts that Ebsary repudiated its said license agreement about the time of the decision of the Supreme [fol. 1201] Court on March 8, 1948, and that U. S. Gypsum acquiesced in such repudiation, and (3) in the alternative that subsequent to such repudiation, Ebsary, by the use of said patents without authority or permission of U. S. Gypsum, infringed the same to the damage of the plaintiff in the sum set forth in its complaint. U. S. Gypsum further denies that this Court has primary jurisdiction over the questions raised by Ebsary in its said petition for the reasons set forth in paragraphs 1 and 2 of this answer.

Wherefore, U. S. Gypsum prays that the petition be dismissed with costs.

United States Gypsum Company, by Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., *Its Attorneys.*

[fol. 1202] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1203] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ANSWER OF UNITED STATES GYPSUM COMPANY TO PETITION OF UNITED STATES OF AMERICA, FILED HEREIN ON JUNE 30, 1953.—Filed September 9, 1953

Comes now United States Gypsum Company, hereinafter sometimes referred to as U. S. Gypsum or this de-

fendant, by its attorneys, Bruce Bromley, Cranston Spray, Robert C. Keck, and Hugh Lynch, Jr., and for answer to the petition heretofore filed in this cause on June 30, 1953 by United States of America, hereinafter sometimes referred to as the plaintiffs, avers as follows:

First Defense

1. For a first defense, U. S. Gypsum avers that this Court has no jurisdiction of the controversy involved in the claim asserted in paragraph 5 of said petition, nor of the subject matter of said claim, for the reason that said claim is not within the limited reservation of jurisdiction in Article X of this Court's final decree of May 15, 1951, [fol. 1204] and is not within the inherent jurisdiction of this Court, as a court of equity, to modify said decree by enlarging its injunctive provisions as requested in the first prayer of said petition. This Court, being without jurisdiction to entertain it, said petition should be dismissed, or in the alternative should be stricken from the files, and U. S. Gypsum accordingly moves that it be so dismissed or stricken.

Second Defense

2. For a second defense, and answering each claim and paragraph of said petition, U. S. Gypsum avers with respect to each claim and paragraph as follows:

3. U. S. Gypsum admits the averments contained in paragraph 1 of said petition and admits that on May 15, 1951, this Court entered its final decree herein, and that Articles IV and X of said final decree contains the language set forth in paragraph 2 of said petition, but denies that said petition could be made pursuant to said Article X of the final decree.

4. U. S. Gypsum admits the averments contained in paragraphs 3 and 4 of said petition.

5. U. S. Gypsum denies the averments in paragraph 5 of said petition and specifically denies that its said actions in whole or in part are barred by this Court's final decree of May 15, 1951, and further specifically denies that its said actions constitute an attempt to defeat said decree.

6. U. S. Gypsum admits the averments contained in paragraph 6 of said petition.

Wherefore, U. S. Gypsum prays that the said petition be dismissed.

United States Gypsum Company, By Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., *Its Attorneys.*

[fol. 1205] *Duly sworn to by O. M. Knode. Jurat omitted in printing.*

[fol. 1206] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

BRIEF OF UNITED STATES GYPSUM COMPANY IN ANSWER TO THE BRIEFS FILED HEREIN BY DEFENDANT PETITIONERS.—Filed September 9, 1953

* * * * * * *

[fols. 1207-1255] From this it is argued that U. S. Gypsum cannot truthfully and conscientiously certify to the District of Columbia Court that there were no agreements between it and National or Certain-teed entered into between the 1948-1951 period, and on the other hand bring suit to enforce such an agreement in Iowa. The colloquy could, of course, only have reference to the license agreements listed and any amendment or supplement to such license agreements. It could not have been referring to an implied promise to pay in the absence of an express agreement, which is the basis of the *quantum meruit* recovery sought in Counts III and IV of the Iowa suits; nor could it have any reference to the infringement count.

* * * * * * *

[fol. 1256] The answers of U. S. Gypsum to the petitions filed in this Court raise material issues of fact which

cannot be resolved as a matter of law against U. S. Gypsum without a factual inquiry.

Moreover, this Court on the record before it knows of a number of facts any one of which constitutes evidence of purge at a time prior to May 15, 1951.

Five such facts are as follows:[82a]

1. As this Court has already found, U. S. Gypsum did not fix prices under its licenses after July 8, 1941.[83]

2. As this Court knows,[84] the defendant petitioners ceased paying royalties under their licenses shortly after the March 8, 1948 opinion of the Supreme Court. In Count III of the suits filed by U. S. Gypsum in the federal courts in Iowa, New York and New Jersey, it is averred that at [fol. 1257] that time the licensees repudiated their licenses, that U. S. Gypsum acquiesced in that repudiation, and that thereafter each treated its license as rescinded, several years prior to May 15, 1951, no action being taken either by the particular licensee to comply with, or by U. S. Gypsum to enforce or require performance of, any of the provisions thereof.

3. As this Court also knows,[85] after the Government had moved for summary judgment in 1949, and its motion had been granted, U. S. Gypsum in the early spring of 1949, in connection with consideration of a form of decree, offered forms of new licenses to its licensees and filed copies of these forms with this Court in June and July, 1949. Each such form of license avoided provisions found objectionable in the Supreme Court's first decision. Since the minor differences between the forms of licenses first offered and those filed with this Court on July 23, 1949,

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[82a] These five facts are, of course, only illustrative and not the only or exclusive facts showing purge.

[83] See findings of fact No. 19 of this Court, which was unopposed by the Government in its appeal. 1947 R. 4143; 67 F. Supp. 397, 412. U. S. Gypsum sworn ans. to Nat. pet. par. 21.

[84] See Nat. Petition p. 9, and Cert. Petition p. 9. This nonpayment of royalties is admitted in U. S. Gypsum's answers to these petitions.

[85] Tr. 8257, 8260.

could not be said to indicate any continued patent misuse by U. S. Gypsum, these licenses and their tender to the licensees, who are the defendant petitioners here, demonstrate a purge by U. S. Gypsum as early as February or March, 1949. This is particularly true in light of the abandonment of price fixing in 1941, and the averment in Count III of the mutual rescission of licenses in the spring of 1948.

4. On November 7, 1949, this Court's decree was entered adjudicating the licenses to be illegal, null and void, and enjoining their enforcement. Although appeals were taken on January 6, 1949, by the Government and U. S. Gypsum, the evidence will show, as alleged in U. S. Gypsum's answers to the petitions, that it had decided not to appeal the decree unless the Government appealed, in which event it felt it would be required to appeal, in self defense.

[fols. 1258-1283] 5. The Supreme Court on May 29, 1950, in dismissing U. S. Gypsum's appeal (339 U. S. 960), enjoined the defendants from "enforcing in any manner whatsoever" the price provisions of the license agreements.

Each of these facts, according to the authorities, constitutes a purging of any alleged patent misuse by U. S. Gypsum. The cumulation of these facts establishes purge beyond any doubt.

[fol. 1284] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

BRIEF FOR THE UNITED STATES—Filed October 8, 1953

Preliminary Statement

This brief is filed in support of the petition which the United States filed in this cause on June 30, 1953, for orders or directions for the construction, carrying out, or enforcement of this Court's final decree of May 15, 1951. The petition was filed for the purpose of securing an adjudication that this Court's final judgment bars de-

fendant United States Gypsum Company (USG) from prosecuting certain claims made in four actions which it has instituted in other federal district courts, and for [fol. 1285] the purpose of obtaining entry of an order or orders giving effect to such an adjudication.

The actions to which the Government's petition relates were brought early in 1953. In these actions, the defendant, and the district in which suit is pending, are: National Gypsum Company (N. D. Iowa), Newark Plaster Company (D. N. J.), Ebsary Gypsum Company, Inc. (S. D. N. Y.), and Certain-teed Products Corporation (N. D. Iowa).[1] In each action USG makes the following alternative claims: (1) recovery of the royalties payable to USG under the terms of one or more prior patent licensing agreements made between it and such defendant, (2) recovery on a *quantim meruit* basis by reason of the defendant's use of one or more of the USG patents licensed under such agreements, or (3) damages for infringement by reason of such use. Recovery is sought for a period running from shortly before or after March 8, 1948, the date of the Supreme Court's decision in *United States* v. *United States Gypsum Company*, 333 U. S. 364, to May 15, 1951, the date of entry of final judgment in the present cause.

It stands admitted that in each of these actions USG is seeking to recover the royalties payable under certain license agreements which the final decree of this Court had adjudged to be "unlawful under the antitrust laws of the United States and illegal, null and void."[2] The [fol. 1286] position of the United States, as set forth in its petition, is that said final judgment bars enforcement of any claim based in whole or in part upon any license agreement thus adjudged null and void, and that suit to recover upon any such claim constitutes an attempt to defeat the Court's final judgment. The petition prays, by way of relief, that this Court enjoin USG from asserting any claim, and from

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[1] These defendants, each of which is also a defendant in the present cause, will be respectively referred to as National, Newark, Ebsary and Certain-teed.

[2] See averments of paragraphs 2-4 of Government's petition, admitted by USG's answer to said petition.

maintaining, instituting, or threatening to institute any action, based in whole or in part on any license agreement which the Court had adjudged illegal, null and void.

The United States stated in its petition that it takes no position as to whether USG's alternative claims for recovery on a *quantum meruit* basis or for infringement, as made in the four foregoing actions are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims.

Certain-teed, Ebsary, National and Newark have filed separate petitions, each requesting this Court to enjoin USG from prosecuting its pending action against the petitioner, or any like action. After these petitioners had filed briefs in support of their petitions, USG answered the petitions and filed an answering brief. The briefs thus filed set forth in some detail the prior proceedings in the present cause insofar as the proceedings are deemed rele- [fol. 1287] vant to the issues raised by the pending petitions. In these circumstances, the Government believes it unnecessary to review the various steps in this litigation, which culminated in the entry of the final judgment of May 15, 1951. The aspects of the prior proceedings which we consider important will be referrred to in connection with the contentions which we make in support of the Government's petition.

USG's answer to the Government's petition pleads as a first defense that the Court has no jurisdiction, either under Article X of its final judgment or under its inherent equity powers, of the issue presented by the Government's petition, and moves that the petition be dismissed or stricken for want of jurisdiction. Of course, when a court's jurisdiction is drawn in question, this is the threshold question in the case. However, this Court's jurisdiction of the Government's petition turns largely on the conclusion reached concerning the meaning and effect of the substantive provisions of the Court's judgment. If the Court accepts our views on this matter, we believe that there can be no substantial doubt concerning the Court's jurisdiction.

[fol. 1288] [File endorsement omitted]

UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

REVOCATION OF DESIGNATION OF CIRCUIT JUDGE HAROLD M. STEPHENS, AND DESIGNATION OF CIRCUIT JUDGE KIMBROUGH STONE, RETIRED, TO REPLACE CIRCUIT JUDGE HAROLD M. STEPHENS AS A MEMBER OF THE COURT IN THE ABOVE-ENTITLED CASE—December 22, 1953

Because of my duties as Chief Judge of the District of Columbia Circuit and because of the accumulation and urgency of business in the United States Court of Appeals for the District of Columbia Circuit, and because my duties as an Advisory Member of the Commission on Judicial and Congressional Salaries created pursuant to Public Law 220, 83rd Congress, will conflict with my performance of the duties necessary for a hearing of the above-entitled case commencing on January 12, 1954, it is my judgment that the public interest requires that the order of September 15, 1942, designating me as a Circuit Judge to serve as a member of the Court to hear and determine the above-entitled case should be revoked and that another Judge should be designated to replace me as a member of the Court to hear and determine said case; Accordingly, I hereby revoke, this revocation to be effective January 11, 1954, the said order so far as it designates me as a member of the Court to hear and determine the above-entitled case, and, pursuant to the authority vested in me by Section 28 [fol. 1289] of Title 15, United States Code, I do hereby designate effective January 11, 1954, the Honorable Kimbrough Stone, United States Circuit Judge, retired, heretofore designated by the Chief Justice of the United States to act as a United States Circuit Judge for the District of Columbia Circuit, in my place and stead as a member of the Court to hear and determine the above-entitled case.

Done this 22nd day of December, 1953.

Harold M. Stephens, Chief Judge of the United States Court of Appeals for the District of Columbia Circuit.

[fol. 1290] [File endorsement omitted]

IN UNITED STATES DISTRICT COURT

[Title omitted]

AMENDMENT TO DESIGNATION OF JUDGES—December 23, 1953

The Chief Justice of the United States having revoked, effective January 12, 1954, the designation made on September 15, 1942, of the Honorable Finis J. Garrett, Chief Judge of the United States Court of Customs and Patent Appeals, to perform the duties of District Judge and hold a District Court in the District of Columbia, it has become necessary to amend the designation of Judges to hear and determine the above-entitled case, dated September 15, 1942, so as to provide for the replacement of said Honorable Finis J. Garrett by another District Judge;

Now, Therefore, pursuant to the authority vested in me by Section 28 of Title 15, United States Code, I hereby amend said designation of September 15, 1942, by designating, effective January 12, 1954, the Honorable Eugene Worley, Judge of the United States Court of Customs and Patent Appeals, heretofore designated by the Chief Justice of the United States to serve as a Judge of the United States District Court for the District of Columbia, in the place and stead of the said Honorable Finis J. Garrett, to hear and determine the above-entitled case.

Done this 23d day of December, 1953.

Harold M. Stephens, Chief Judge of the United States Court of Appeals for the District of Columbia.

[fol. 1291] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA, HOLDING A THREE-JUDGE STATUTORY COURT

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants

Reporter's Transcript of Hearing on Petitions of National, et al.—January 12, 1954

Court Room No. 19, Sixth Floor, United States Court House, Washington, D. C.

Tuesday, January 12, 1954.

The above-entitled cause came on for oral argument on petitions of National Gypsum Company, Certain-teed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, at 11:00 a.m., pursuant to notice, before Honorable Kimbrough Stone, Honorable William P. Cole, Jr., and Honorable Eugene Worley, sitting as the District Court of the United States for the District of Columbia.

APPEARANCES:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., and

Lawrence Gochberg, Esq., Trial Attorneys, on behalf of the United States of America.

[fol. 1292] Cranston Spray, Esq., Bruce Bromley, Esq., Robert C. Keck, Esq., Hugh Lynch, Jr., Esq., and John E. MacLeish, Esq., on behalf of United States Gypsum Company.

Seymour Krieger, Esq., Samuel I. Rosenman, Esq., Elmer E. Finck, Esq., and Seymour D. Lewis, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., Herbert W. Hirsh, Esq., C. Roger Nelson, Esq., Donald N. Clausen, Esq., and Franklin

M. Schultz, Esq., on behalf of Certain-teed Products Corporation.

Albert E. Hallett, Esq., on behalf of The Celotex Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., on behalf of Newark Plaster Company.

[fol. 1293] PROCEEDINGS

Judge Stone: Are you gentlemen ready to proceed in the presentation of this Civil 8017?

Mr. Bromley: Yes, Your Honor. United States Gypsum Company is ready.

Mr. Rosenman: The petitioners are ready, Your Honor.

Judge Stone: It would be advantageous to the court if you gentlemen would give to the reporter the names of counsel who are to represent the particular parties. I will ask those representing the petitioners to give theirs first, please.

Mr. Rosenman: I think that has been done, Your Honor.

Judge Stone: Has that been done?

Mr. Rosenman: Yes, sir.

Judge Stone: Have you gentlemen determined, that is, among the petitioners, particularly, as to who will present the case orally?

Mr. Rosenman: We have agreed, sir, that I—my name is Rosenman, representing the National Gypsum Company—would present the main part of the argument so far as time is concerned, but each of the other petitioners would like to be heard separately.

Mr. DeWitt: We have determined the order in which the petitioners' counsel will speak.

Judge Stone: Now, for the defendant, United States Gypsum Company, you gentlemen have determined, of course, who will address the court?

[fol. 1294] Mr. Bromley: Yes, Your Honor. My name is Bruce Bromley. My firm is Cravath, Swaine and Moore, from New York, and we represent the United States Gypsum Company. I shall argue orally.

Also, the Chicago firm of MacLeish, Spray, Price and

Underwood are the general counsel for the United States Gypsum Company, and with the court's permission, Mr. Spray will participate in the oral presentation and will make the first argument, I to follow him. We estimate, if it is of interest to the court, that we will consume not more than three hours.

Judge Stone: Now getting down to the matter of time, which Mr. Bromley has suggested, I understand, Mr. Bromley, from you that the United desires three hours for its presentation?

Mr. Bromley: Yes, Your Honor.

Judge Stone: How much do the petitioners desire, Mr. Rosenman?

Mr. Rosenman: Speaking for the National Gypsum Company, sir, I would like two hours for the direct presentation and would like a half-hour for rebuttal, if that is agreeable to the court.

Judge Stone: That is just for the National?

Mr. Rosenman: That is right. Now, Mr. DeWitt, speaking for one of the petitioners, I think——

Mr. DeWitt: My name is DeWitt. I represent Newark Plaster Company. I should like one-half hour.

Mr. Miller: I am Mr. Miller, representing Certain-teed [fol. 1295] Products. We will request only a half-hour.

Judge Stone: Ebsary?

Mr. Rippey: I am Joseph Rippey, representing the Ebsary Gypsum Company, and I should like about ten minutes.

Judge Stone: If I am correct in my calculation of your time, petitioners desire three hours and fifteen minutes. And the Government?

Mr. Knuff: If Your Honor please, my name is Edward Knuff. I represent the Government. I do not believe that I would require more than a half-hour.

Judge Stone: That would make three hours and forty-five minutes. Suppose, to take care of eventualities, we allow four hours, and, of course, a similar time, if you desire, Mr. Bromley, will be allowed the United to present their case in answer.

Mr. Bromley: Thank you, Your Honor.

Judge Stone: Now, in reply, Mr. Rosenman, I believe, suggested thirty minutes.

Mr. Rosenman: Yes, sir.

Judge Stone: Is that for all the petitioners?

Mr. DeWitt: I should like to reserve ten minutes, if the court please, on behalf of Newark Plaster Company.

Mr. Miller: May I suggest, if Your Honor please, that in reply the petitioners be allowed one hour to be divided between us, a time not to exceed one hour for all petitioners?

[fol. 1296] Judge Stone: Is that agreeable to the petitioners?

Mr. Rosenman: Yes, sir.

Judge Stone: Then the time allowed will be four hours for the presentation in main by the petitioners and four hours to answer by the United, and one hour to be divided as petitioners' counsel may determine among themselves for reply.

Is that satisfactory to all parties?

Mr. Rosenman: Yes, sir.

Mr. Bromley: Yes, sir.

Judge Stone: That will make nine hours all together. We will divide that among the two days.

Do counsel desire daily transcripts from the reporter?

Mr. Rosenman: I think we have arranged with the reporter for transcripts, have we not?

Judge Stone: Those are daily transcripts, Mr. Reporter?

(The reporter answered in the affirmative.)

Judge Stone: Will you please furnish the judges with the same copies?

You wish yours sent to your office?

Judge Cole: I wish mine sent to our office.

Judge Stone: And you want yours sent to your office?

Judge Worley: Yes.

Judge Stone: If you will send the copies of Judge Cole and Judge Worley to their offices in the Internal Revenue Building, and you may send mine to my office here, which is 6333.

[fol. 1297] Gentlemen, for your information, the court will divide its two days in this manner: Today we will have arguments from eleven—it is a little past, but we will take

that slack up—until one, and from two to four-thirty. Tomorrow the hours will be ten to one and two to three-thirty.

If I am correct, I believe that exactly covers the hours allowed.

Will you proceed on the part of the defendants?

Mr. Rosenman: May I ask Your Honor to notify me when I have consumed an hour and a half, so that I will have a half-hour's notice?

Thank you.

Judge Stone: Pardon me. May I suggest, if you will have one of your counsel do that, for I get absorbed in the argument and do not watch the clock. I will ask that in relation to all of the counsel who argue.

Argument on Behalf of National Gypsum Company

By Mr. Rosenman:

Mr. Rosenman: I speak, if Your Honors please, for the National Gypsum Company, one of the defendants in an antitrust suit which was commenced some time ago by the United States of America. This antitrust suit resulted in a decree which I shall ask the privilege of discussing in detail with Your Honors.

That decree, we petition this court now to enforce. We urge upon Your Honors that that decree of this court is now [fol. 1298] being flouted by the United States Gypsum Company in that it has brought actions in Iowa, in New York, and in New Jersey, which to our mind violate the fair intendment of the decree, and we ask this court now to enjoin the United States Gypsum Company from proceeding with the litigation which it has begun in those three states.

The original antitrust action was brought by the United States of America against the United States Gypsum Company and these petitioners who sit here, some five corporations. And the gravamen of that action was that the United States Gypsum Company had by means of patents, which it owned and which it acquired, regimented the entire gypsum industry, organized it completely, and regulated not only the production and prices of gypsum and gypsum products, but also its distribution and its sales and its transportation.

The U. S. Gypsum Company, at the time when it began

this process of regimentation, owned some patents, and in order to complete the regimentation, acquired some patents. This is all covered very fully in the complaint and in the various court decisions which have resulted from this litigation.

Owning some patents and acquiring others, it proceeded to get the entire industry—and when I say the entire industry, Your Honors, I mean the entire industry—to agree to a system of price fixing and regulation of production and distribution, so that it could truthfully be said by the Su- [fol. 1299] preme Court of the United States twice that it did in fact regiment the entire industry and monopolize the entire industry and control it from beginning to end.

It did it by means of licenses of its patents, and the licenses which it issued to these various licensees, now petitioners here, provided for price fixing on the part of United States Gypsum. U. S. Gypsum was to fix the minimum prices. It was also to regulate to whom patented gypsum products could be sold; and in addition to these licenses, Your Honors, U. S. Gypsum embarked on a system of control through organizing a subsidiary corporation known as the Board Survey Company, which sent bulletins, hundreds of bulletins, to the various other members of this group, and that includes the entire gypsum industry, at least in the eastern part of the United States, being defined as all of the United States east of the Rocky Mountains.

This litigation, sirs, went up twice to the Supreme Court of the United States, and in both of those instances there were findings which I shall discuss in detail to the effect that this whole plan was a violation of the antitrust laws of the United States, and that these license agreements and the bulletins which accompanied them were all illegal, and that the license agreements themselves were not only illegal as contrary to the antitrust laws of the United States, but were in law null and void, and those two words are quotes [fol. 1300] from the decrees and from the fair intendment of the Supreme Court decision.

After it had been twice to the Supreme Court of the United States, this court was asked to formulate its decree to cover this situation, and to undo the evil effects which had been created by this monopoly and restraint, for the

defendants were found guilty of violating both Section 1 and Section 2 of the Sherman Act.

The decree itself declared that these licenses were null and void. There can be no doubt about that, as we will see as we examine the decree.

The decree also directed a number of other things be done which I shall cover, including compulsory licensing, not only of the patents which U. S. G. then owned, but all patents which it might own within the next five years.

In other words, this decree opened up this entire industry from the strait-jacket into which it had been placed by these license agreements and by the bulletins which went out pursuant to them.

[fol. 1301] The basis of this decree, and the basis of the decision by the Supreme Court, was that these patents had been misused, as your Honors and as the courts interpret that phrase, "misused," that they had been misused, and that the misuse had not been purged, and that therefore they would have to undergo certain means of opening them up to the entire industry.

Now, when this was first enunciated by the Supreme Court of the United States, in its first opinion, which was on March 8, 1948, the Supreme Court then for the first time held that these license agreements, by reason of the misuse, had become null and void and illegal, and as a result of that, these six licensees discontinued paying royalties which were provided in the license agreements. In view of the fact that the license agreements were held to be illegal, these licensees discontinued paying the license fees, or the royalties.

This continued through the further course of this litigation until this court entered its final decree, and its final decree was that these licenses were null and void, and that they should be non-existent and non-enforcible, but that U.S.G. was directed to license on reasonable terms anybody who applied for a license, and, of course, "reasonable terms" would mean excluding all of the illegal provisions which had been found to exist in these licenses.

My client and some of the other petitioners, following this decree, did enter into agreements with U.S.G. for the [fol. 1302] further use of these patents on reasonable roy-

alties and on conditions which were very different from the conditions which applied before the decree and before the finding of illegality. It has paid its royalties from the time of the signing of the decree and from the time that it entered into the new license agreements. It did not, however, pay the royalties for the time elapsing between the declaration by the Supreme Court of the United States that the licenses were illegal, and it did not pay those royalties until the time when the illegality was removed and they entered into the new license granted compulsorily by U.S.G. There is this lapse of some three and one-half years of royalties.

It is for the payment of those royalties that U.S.G. has brought an action against my client and one of the other petitioners in the state of Iowa, and it is for those royalties that it has brought actions against other petitioners in the state of New York and the state of New Jersey.

We are here, sirs, to urge that those actions brought on license agreements which this court and the Supreme Court have twice condemned as illegal and have stated are null and void, that those suits in Iowa and New York and in New Jersey be stayed by this court on the ground that they violate this decree.

I should say something about the causes of action which have brought in Iowa against us. It is hard to believe, but that complaint in Iowa, consisting of five counts, has four [fol. 1303] counts founded upon these very license agreements which have been declared null and void. The first two counts of the complaint in Iowa are based upon actual expressed contracts to the effect that National Gypsum entered into these license agreements and that they agreed to pay royalties under them, and that they have not paid royalties for three and one-half years, this in spite of the fact that this court and the Supreme Court have stated that these licenses and these agreements were null and void.

The second two counts, namely, counts 3 and 4, in Iowa, are based upon what U.S. Gypsum, the plaintiff there, calls quantum meruit, saying that even if these license agreements do not expressly direct us to pay royalties because of the holding of null and void, that nevertheless we used the royalties, and therefore on some basis of quantum

meruit we should pay the reasonable value of the patents which were used to produce our gypsum.

Now, the amount sued for in counts 1 and 2, namely, on the express agreements, is $1,600,000, and the amount claimed for quantum meruit is exactly the same. There is no difference in the damages claimed for any of the first four counts, and we urge that all of those four counts must of necessity be invalid because they are based on agreements which have been declared to be illegal, null and void, and that therefore, on that holding alone, they should be enjoined by this court because what they do is to fly in the face of the decree of this court.

[fol. 1304] Now, the fifth cause of action in Iowa is different. It is not based on the license agreements, but the fifth cause of action alleges merely that we used the patents for this period of time, three and one-half years, and that in using the patents, we were infringers, and therefore the claim is for the same amount, $1,600,000. We are here to urge that that, too, flies in the face of the decree because if the decree means anything in saying that these license agreements are null and void, we urge upon your Honors that it must mean that they cannot be sued upon in any form, and if you change the mere form from an actual contract action, or a quantum meruit action, to a claim for damages for infringement, you are only changing the form and not the essence, and therefore on the face of the decree, that is an improper cause of action on which this court should take some action itself in order to protect its own decree.

Now, in Iowa we have interposed defenses, as have the other defendants in the other jurisdictions, and we have set up, of course, the fact that this court has declared these license agreements null and void, and with respect particularly to the fifth cause of action, but it also applies to others, we urge that these patents, of which U.S.G. says we are infringers, that these patents were so misused, and that misuse was found by this court and by the Supreme Court, that they cannot sue for infringement until they show that that misuse has been completely purged.

[fol. 1305] Now, those are the issues pending in Iowa, and we urge that since the decree says that the licenses were null and void and since the Supreme Court has twice

said that these patents on which they are suing us were misused, we urge that on the face of the decree itself, U.S.G. should be enjoined from continuing these suits; and we urge it on three theories:

In the first place, as I say—and it covers Point 1 of our brief—on the very face of the decree, which says in so many words that the license agreements are null and void, no suit should be tolerated by this court which seeks to recover on those licenses, whether it is on express contract or on quantum meruit or on the basis of infringement.

Now, if your Honors disagree with us on that, then we urge as a second point that, if your Honors disagree that the face of the decree itself should ban these suits in Iowa, then because of the misuse of the patents, this court, in order to implement its decree and to effectuate the basic purpose of its decree, should do what the court did in the Hartford Empire case and in the National Lead case, both Supreme Court cases, as your Honors know, which forbade by injunction any suit for royalties which were earned prior, or which purported to be earned prior, to the entry of the decree.

That has become a common doctrine in misuse cases. It has become a common remedy to purge the misuse of patents, to order that royalties which otherwise would have been earned by a proper use of the patent should be en- [fol. 1306] joined for any period prior to the decree which sought to dissipate the evil effects of that misuse.

As a third theory, we urge that since the Iowa court has before it this pending litigation in which the defendants urge a misuse of the patent, this court should undertake, in the manner of carrying on a proper administration of justice, to enjoin the further prosecution in that court in order to carry out its own decree with respect to the misuse of the patents.

Now, that, too, since the Morton Salt case, has become a common remedy in private litigation. Since the Morton Salt case, there have been many cases between private litigants in which a defense against infringement or against royalties has been the misuse of patents, and the courts have sustained that defense.

We urge that since that defense has been raised or will be raised in three jurisdictions, and for other reasons

which I shall cover in greater detail, this court should undertake now to decide the question as between U.S.G. and the petitioners, in order to avoid the multiplicity of actions which are now going on in different parts of the United States which might result in diverse rulings and which this court has the power, and we should urge, the discretion, to stay and decide by itself.

So on those three theories, we urge that this court now stop the litigation and decide these questions itself on our petition.

[fol. 1307] With that preliminary statement, I should like, if your Honors please, to examine in a little more detail the decree of this court. I do not know whether your Honors have printed copies of it. I would respectfully direct your attention first to Article II, appearing on page 4. That is the definitions article. The definitions here are very important, because the definitions in this final decree were quite different from the definitions in the preceding decrees. They are much broader here, and we are urging that the Supreme Court broadened the earlier decrees, and that there can have been no purge of any misuse until this decree was entered.

Now, the fundamental defense of the United States Gypsum Company to this petition is, first, that the only thing that was declared illegal was the price-fixing provisions of the patented gypsum board, and that nothing else was really found to be illegal. They also urge that each license agreement by itself was assumed to be lawful, and that it only became unlawful by reason of the fact that everybody in the industry entered into the same license agreement and with the knowledge of each other adhered to those price-fixing provisions.

They urge finally that this case is different from the Hartford Empire and National Lead cases, and that there really was no misuse of the patents here, and all that happened was that the court found that the price fixing of the patented gypsum board was illegal because the entire industry engaged in it.

[fol. 1308] Now, we urge that what the court found was far broader than that. The court found that this whole planning was illegal, that the price-fixing provisions as to patented board were only one small facet of it, and that the

conspiracy extended to unpatented products, to all products, and not just to gypsum board, and that as a result of the patent misuse, U.S.G. was enabled to regiment the industry to decide that we could not sell to jobbers, to fix their royalties on unpatented board as well as patented, and to compel us really to fix prices on all other gypsum products that we sold in connection with the patented board.

[fol. 1309] That is the issue between us now, and it is with that in mind particularly, Your Honors, that I would ask your indulgence in examining this decree in a little greater detail.

If Your Honors will notice, they distinguish in Definitions 2 and 3 between gypsum board and gypsum products, and in gypsum board, they include not only patented gypsum board, but unpatented gypsum board as well, because gypsum board, as defined here does not restrict itself to patented gypsum board, although USG has always claimed and still claims that the only illegality was with respect to the patented gypsum board.

Then I ask Your Honors to look at "gypsum products," which means everything in the gypsum business other than gypsum board.

Now, this is the first decree which talked about gypsum products. The license arrangements from USG said nothing about gypsum products. It talked only about patented board. But the Supreme Court finds, as Your Honors will see as we go through this, that there was such a vast conspiracy covering and regimenting the entire industry and stabilizing prices in it, that it had to make findings and it had to make decretal provisions with respect to all gypsum products.

I might perhaps, with the realization that Your Honors are not in the gypsum industry, show you some samples of what we are talking about. If the Clerk will show you that piece of patented wallboard and a piece of patented plaster-[fol. 1310] board, or lath, if Your Honors will notice on one side of that board, the paper is folded over. On both of them, the paper is folded over.

The only difference between those two articles is that one has a smooth surface. That is the patented wallboard.

The other is a rough surface, which is plasterboard. The wallboard is put right on the inside of a building, and you can paint it or put wallpaper right on it. The plasterboard requires that in addition to the board itself, some plaster be put on it, but both of them are patented, and Your Honors will notice that both of them have one edge closed.

Now, that is only a small piece of what a piece of board is. It is very large. In the regular piece of board, both sides will be closed in with that piece of paper. That is what is referred to in this case as closed-edge board, and that was very important, Your Honors, because before USG had a patent to close that board, the board was open-edge board. All sides of it would be open; and when you started to nail it to the wall, it would either crack or it would splinter at the end; the plaster inside would be crumbled, and it became very difficult to handle, so that the closed-edge board became very important in the industry, and that was the patented board.

In addition to that, there were some patents which put starch in the mixture of the plaster. Those boards were made by running a piece of paper and then pouring the [fol. 1311] plaster on it. The plaster was mixed with water, and plaster, as Your Honors see, made of gypsum is just pulverated gypsum, which comes out of the ground. That is made into a product which is called slurry, mixed with water, and is poured on this paper, and then that is called a liner, and then on top of it comes a long liner, and the important thing is that under this patent, the liner is at the edge folded over, as Your Honors see there, and becomes closed-edge wallboard.

It was by means of this original patent that USG regimented the industry, because everybody wanted to use this. It was much better for building.

Judge Stone: That was an improvement patent?

Mr. Rosenman: Yes, sir; it was an improvement, and it was through that patent, called the Utsman Patent, which is not important in this case, so far as the name is concerned, that they regimented the industry. Everybody wanted that, and they come in and they signed these license agreements, but they agreed to pay royalty not only on the patented product but also on the unpatented wallboard, even though it was not covered by a patent.

The Supreme Court found that that was a conspiracy, too, and a part of the misuse to cover unpatented products by extending the lawful patent monopoly to an unpatented product.

Now, to return to this decree, Your Honor will see the definition of "patent licenses." Especially the patent [fol. 1312] license that we were operating under was the second one, dated October 17, 1929.

Now, the patents themselves are defined in Definition No. 4, Your Honors will notice, to mean not only the patents now owned or controlled by USG, but the patents which they will own or acquire within a period of five years after the signing of the decree.

In other words, this Court determined that in order to purge the misuse of these patents, they would have to license compulsorily, as you will see in the later part of the decree, not only the patents which they *they* owned, but also any patents which they would acquire within a period of five years. And that was the first time that that provision ever appeared in a decree, and it appeared because the Government urged and the Court found that in order successfully to purge the misuse of these patents, they would have to open up the entire industry, not only as it existed on the date of the decree but any time within five years that USG acquired any patents.

Now, if Your Honors will turn to Article III, which is the adjudication that was found, Your Honors will see that this Court found that USG and the other defendants had violated Section 1 and Section 2, that they had not only restrained trade and commerce, but that they had monopolized trade and commerce.

Then the following article, Article IV, is the holding of [fol. 1313] null and void, and I submit to Your Honors that it could not be clearer; it could not be broader, and it could not be more emphatic, that each of the license agreements listed in Article II—And that includes the ones under which these petitioners were operating—each of them is adjudged unlawful under the anti-trust laws and illegal, null and void.

Now, there is nothing in there that only the price-fixing provisions are illegal, null and void. This is the declaration that the license agreement in toto is unlawful, null and void.

Then we come to the injunction, Your Honors will see that what they enjoin is agreements or understandings not only about patented board—they do not use patented board any more—they talk about gypsum products. That includes patented board; it includes unpatented board; it includes plaster and everything that is involved, and they say that you cannot fix, maintain or stabilize them by the patent license agreements, and they say you cannot do it by any other acts or course of action.

Now, those other acts or course of action refer to these hundreds of bulletins which went out, which the Supreme Court in both of its Opinions described as the means by which the industry was regimented. This says you cannot do that any more. It says you cannot do anything to fix the prices or the terms or conditions of sale of gypsum products.

I shall indicate to Your Honors how they had up to this [fol. 1314] point fixed the terms and conditions of sale of all gypsum products, not only patented board but unpatented board and plaster and all of the products that did come within the definition of gypsum products, defined in this decree.

Then it says there are four specific things that you cannot do. Now, the four specific things are other elements of the conspiracy and regimentation, and they were carried out, not by the license agreements but by means of bulletins. The first one you cannot do is to classify purchasers or refrain from selling to a class of purchasers.

Now, that refers to proof which was adduced and which the Supreme Court held was conclusive, that they not only fixed prices, but they said:

> "You cannot sell to any jobbers; you cannot sell to any manufacturing distributors unless we agree first in writing as to who they are and unless they are willing to buy at the same price that you sell to your other customers."

Now, obviously, as the Supreme Court held, that did away with all jobbers, because no jobber could buy at the same price without any discount and then survive, so that as

a matter of fact the Court found this: All jobbers were eliminated.

Then subdivision 3 of that Article says that you cannot have a delivered price plan. Now, that, too was done by means of bulletins, so that prices were fixed, so that every- [fol. 1315] body in the United States, no matter where they were located, paid the same amount for gypsum, and they did it by very minute regulation of the basing points and the transportation costs, and so forth.

As the Supreme Court held, a part of the regimentation was control of this transportation and transportation costs.

Then the fourth is very important. It forbade USG from policing, investigating, checking or inquiring into the prices, quantities, terms or conditions.

The original license agreement provided that USG could come in and check our books and see whether we really were violating the provisions against underselling, and the way we would do it—and this was a part of the regimentation—was that if, for example, any one of these licensees felt that it wanted to violate the price-fixing provision, it could say to a customer:

> "Now, we will sell you this wallboard or this plasterboard at the price that USG says we will have to sell it, but we can give you a little rebate by selling you the plaster a little cheaper."

[fol. 1316] Now, the U.S.G. clamped down on that right away, and said that if you sell plaster, even if there is no patent on that—everybody has plaster and sells plaster—but these bulletins said that if you sell this plaster a little cheaper in order to give the rebate to a purchaser, we consider that undercutting and underselling the patented board, and it is not permitted under the license.

This court, pursuant to what the Supreme Court of the United States said in its decree, forbade the continuance of that.

Then in Article VI, your Honors will notice that U.S.G. was directed to license at a reasonable royalty all patents as heretofore defined. Now, "as heretofore defined," includes not only existing patents, but the patents acquired for five years, and it is directed to license anybody who

asks at any time all of its patents that it now has and that it will have until 1956, which is five years.

Then the next paragraph is very important, because it actually states what can go into those licenses, and particularly regulation (b) is very important, that the royalty may not be imposed upon—this is on page 8, paragraph 2—the royalty may not be imposed upon or measured by patent-free products. Now, that was something new in this industry, because U.S.G. up to this point had collected royalties not only on the patented board but on unpatented board as well, and this court said, "You cannot do that any more; you are going to have to license everybody, and [fol. 1317] you can only measure your royalties on the actual patented board which is sold."

Then the next paragraph, (c), provides that you cannot go into our books any more in order to check to see whether we have sold unpatented products at a lower price. The only thing you can go into our books for is to see how much of the patented product we have sold, and therefore how much royalty we owe you, so that in this provision, which is very important in the purge question, in this provision for the first time this court really opened up the patents of U.S.G., and said that you had to give it to everybody in the industry, anybody who asked for it, on certain terms, and these terms discontinued the old terms which were used which the court found provided the means of regimentation.

Now may I ask your Honors to turn to Article X? That Article, on page 12, retains jurisdiction of this cause in this court, and it retains it for the purpose of enabling any of the parties—and I emphasize that, because in some point of the U.S.G. brief you will find a contention that only the United States Government has the right to come in. This says that it has the purpose of enabling any of the parties or any other person that may hereafter become bound hereby to apply to this court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction, or carrying out of this decree, and (2) for the enforcement of [fol. 1318] compliance therewith.

We are appearing here before this court under this Article X, asking for an order which would construe your de-

cree the way we request your Honors to construe it, and then carry it out, namely, that you carry it out to prevent disobedience to the decree. But we are also appealing to your Honors not only under Article X, which is very specific, but also under the general equity powers of any court to see that its decrees are carried out and that they are not flouted by one party going into other jurisdictions and trying as we urge to circumvent the decree by civil actions.

Now, as I say, this is the final decree in this case, and it was the result of a long litigation. The case was tried here in this court and was completed in 1944, and the court reserved decision, and finally in 1946 it dismissed the complaint of the Government, and, of course, rendered judgment for the defendants. The Government appealed, and the Supreme Court reversed in its first opinion, which I shall try to discuss at some length, on March 8th, 1948, and in that opinion it said that there was this illegal conspiracy that violated the anti-trust laws, and the whole thing was illegal, and that is when we stopped paying royalties.

The Supreme Court, after so finding, remanded the case to this court in order to continue proceedings in accordance with its decree, and this court did. It called the law-
[fol. 1319] yers together and said, "How shall we proceed from this point?" And after a long conference, it was arranged that the United States Government would file a motion for a summary judgment based upon the record as then made, that U.S.G. through Judge Bromley, would file a proffer of proof of what it intended to prove in order to meet the prima facie case which had been already produced, and that proffer of proof was submitted by Judge Bromley, and in the main, it paralleled pretty exactly the findings of this court when it dismissed the Government's complaint.

In other words, this court dismissed the complaint and made certain findings which I will discuss to the effect that there was no plan or conspiracy, that this was entered into in good faith, et cetera.

Those findings were reversed by the Supreme Court, as I shall point out, and Judge Bromley's proffer of proof stated that we intend to prove that these things did not happen, that there was no such plan or conspiracy.

Now, this court declined to receive evidence of that offer of proof, and instead ordered summary judgment for the Government, and it held hearings here and received memoranda which I shall refer to as to the form of the decree and as to the findings that it should make now that its original findings had been reversed. There were arguments about it, and finally this court did enter its decree in November of 1949. That is the first decree of this court enjoining the defendants from doing things [fol. 1320] and making certain findings.

The Government was not satisfied with that decree, and appealed from it, saying that this decree should be broadened if we are really to purge this industry of the patent misuse.

U.S.G. was also dissatisfied with the decree, and appealed on the ground that it should be permitted to offer its defense by actual evidence rather than by a proffer of proof. So both parties appealed to the Supreme Court. The Supreme Court denied U.S.G.'s appeal by an intermediate order, and stated probable jurisdiction of the Government's appeal, and then when the appeal came on, the Supreme Court enlarged the decree of the court below, and it was as a result of that enlargement that the court below, this court, made this final decree which we say is now being disobeyed by U.S.G.

Now, I think I have covered our first point, that this is a declaration of nullity on the basis of which no action can be brought in Iowa on an express contract, and we think that it is equally clear, and we have cited cases, at least one case, a Supreme Court case of the United States, Bruce's Juices against the American Can Company, to the effect that if there is an illegal contract resulting from a violation of the anti-trust laws, there cannot be an action in quantum meruit, that if it is illegal, you cannot sue on the contract, and you cannot sue to recover in quantum meruit.

I should ask your Honors to bear in mind that at the [fol. 1321] time of this declaration of nullity and voidness, U.S.G. was continually asking that the court find only that the only illegality was, as it put it, the plurality of licenses fixing the prices of patented gypsum board. But the Supreme Court and this court brushed that aside

and said that the entire agreement is illegal, null and void.

Now, we urge also that on the very basis of the decree, the action for royalties, for infringement, should also be barred, because if you allow this action to continue in a different form for the same substance as if this were a valid, enforcible license, then we think that substance has given way to form.

Now, there is no doubt, your Honors, that this court understood what was meant by this null and void, because as we shall show, during the argument as to the form of the decree, U.S.G. submitted memoranda, and we submitted memoranda, and there was oral argument, all of which has been placed before your Honors, and in the memorandum which U.S.G. submitted with respect to the form of this decree, it said in so many words that the reason that the licensees here were urging that there be a finding of illegal, null and void was that under such a finding no royalties would be payable.

Now, that understanding was submitted to this court by Judge Bromley. His original memorandum, so stating and calling attention to this court, is before your Honors. We have made copies of it, if your Honors would each like a [fol. 1322] copy of that memorandum, which called to the attention of this court that the effect of a declaration of null and void would mean that no royalties would be recoverable, and therefore it begged the court not to make such a finding.

Judge Worley: Is that in the record?

Mr. Rosenman: That is in the record. The memorandum is in the record, yes, sir. We have copies here. It is not in the printed record, but it was a memorandum which was submitted to this court when it was framing its decree. As I say, the original is before your Honors.

Judge Stone: You might place copies of that in the hands of the court.

Mr. Rosenman: Yes, sir. And in that memorandum, and in his oral argument, Judge Bromley and his partner, Mr. Connelly, urged that all that this court should find would be that the illegality consisted of this plurality of price fixing, and that is all that could be found to be null and void. But as I repeat, the court brushed that aside and made this absolute finding that it was null and void.

[fol. 1323] Now, U.S.G. in its brief attempts to meet what I think is this very clear point of null and void by pointing out first that this was no express injunction against the enforcement of the license agreement, and I admit that. There was not in its final decree, but it seems to me that that should not in any way prevent this court from making its decree effective. On the very face of the decree, if it is null and void, we think it almost follows as night the day, that it cannot be enforced, otherwise there would be no reason for saying that it was null and void.

They also urge that this was some sort of a collateral illegality, and they rely on the Connelly case. I do not want to take up the time to discuss the Connelly case, but our brief shows that that is wholly inapplicable.

The Connelly case was one where a combination—one member of a combination sold or licensed its product to someone else. And that someone else sought to resist royalties on the ground that its licensor was a member of a conspiracy; in other words, if National, my client, had sold some gypsum board to someone and sued to recover the price, and that man had said, "You are part of an illegal conspiracy and therefore you are not entitled to recover the price," that would be the Connelly case. And that is not this case at all.

This is the case of a regimentation of an industry, and the dispute is between members of that conspiracy, so found by the court, and it is not the Connelly case. And we [fol. 1324] distinguish it very clearly in our brief and mention the other cases which have refused to follow the Connelly case in similar circumstances with this, because the Connelly case is one of a collateral invalidity rather than an actual inherent invalidity as appears here.

Now, to pass from the actual face of the decree, because we think the very face of the decree should forbid this suit, there is one additional thing that I would like to call to your Honor's attention. On the face of the decree, paragraph 6 which refers to compulsory licensing, refers to the fact that it must be on a reasonable basis, and that if a proposed licensee is not satisfied that it is reasonable then they have the right to come in and have that reasonableness determined by a court.

We think, and we urge upon your Honor that this decree

which said that from the date of this d cree "if you are going to make any licenses they must be reasonable, and we, the Court, are going to pass upon that reasonableness." By saying that they must have intended that any licenses which were made—they could not have intended that a license which was made before the decree could have been done on any kind of unreasonable terms—in other words, the court must not have intended to make this kind of distinction between a license before the decree in which the licensee would have no protection from the court, and a license after the decree in which the licensee would have a protection from the court.

And we urge on the basis of it that on the face of the [fol. 1325] decree alone, as I have been arguing, the very fact that future licensees are going to be protected would make it clear, it seems to us, that the court did not intend that any pre-decree licenses could be enforced, because those pre-decree licenses were unreasonable, had unreasonable provisions in, and the court could not have left them to the mercy of the U.S.G. just because the licenses were made before the decree. And in the same decree say that all future licenses are to have all of these reasonable protections.

Now, leaving the face of the decree, Your Honors, and going to our second point, we say even if I have not been successful in convincing Your Honors that this decree should be enforced by Your Honors, because the action of U.S.G. violates the very face of the decree, then we go to the second point and say that in order to implement your decree and to achieve your basic purpose you should enjoin U.S.G. from proceeding with this suit.

Now, the basic purpose of the decree—and that is the language used by the court dealing with purge and misuse—was stated by the Supreme Court of the United States to be this, to cure the ill effects of the illegal conduct and to assure the public freedom from its continuance.

And we say, sirs, that in order to cure the ill effects of the illegal conduct and to assure the public freedom from its continuance, in order to effectuate that basic purpose there should be an injunction by Your Honors against this litigation in Iowa.

[fol. 1326] And I would like to take a moment, if I may,

to state to Your Honors what our conception is and what we think is the conception of the courts about property in the form of patents.

All through the brief of U.S.G., Your Honors will find a great deal of what we call "scare language" saying that it is not proper for these licensees who have used the patents now to come in and claim patent misuse in order to escape their liability for royalties, that there is something immoral about it. And it is to that contention that I desire to direct Your Honors' attention, to the difference between ordinary property and patent property, because the courts have held time and again, and we cite them in our brief, that a patent is a privilege which is conditioned by a public purpose, and that in all patent procedure public interest is dominant, and that it is the public interest and the public policy which is the prime consideration of the courts in dealing with patents; that a patentee, a man who is given this privilege by law of saying that anybody who wants to use the fruit of my invention must pay for it and nobody else, even though he knows how—nobody else can make that patent; that that is a great privilege which is given by the United States to people to further the arts and sciences. But that that privilege is burdened with a very heavy responsibility; and that that responsibility is that this monopoly which is given to you—and a patent is frankly a monopoly which would normally violate the antitrust laws—of course, we give [fol. 1327] you this patent monopoly, Mr. Inventor, on condition that you do not misuse it.

This is the source of great power to you.

It also has great dangers that you can use it to do exactly what U.S.G. did in this case. You can use it to bring within your monopoly things which you are not entitled to bring into your monopoly. And there are many cases like that, like Morton Salt itself, where the patentee said to a licensee, "You can use our patent providing you also buy from us some unpatented products."

And there are many cases which have sought to extend the lawful patent monopoly to cover unpatented products or to violate the antitrust laws in other ways.

And it is now accepted doctrine in all of the courts, following the Hartford Empire case, and the National Lead

case, and Morton Salt, and B. B. Chemical and other cases, a long list of them cited in our brief—it has become traditional to say to a patentee, "Now, if you go beyond your patent monopoly, and if you use it in a way which violates the policy of the United States as expressed in its antitrust laws, then you have misused the patents and you have forfeited for that period of time—for that period of time, I repeat, in which you misused—you have forfeited your right to compensation for it."

That is a comparatively new doctrine, but it has become, [fol. 1328] since these cases in the forties, accepted law throughout the United States. And it is founded in public policy, namely, that we are willing to take chances with a patent monopoly, but we will not permit a patent monopoly to be extended so as to violate the public policy of the United States. And once it is so violated, then it becomes no longer a matter, Your Honors, between the patentee and the licensee—it is no longer a matter between U.S.G. and its licensees here—it is now a matter of the Public policy of the United States and the public interest of the United States.

And we urge upon Your Honors that this court, having found the misuse in so many different ways, and the Supreme Court having found also the misuse in so many different ways, that as a matter of public policy and as a matter of public interest, U.S.G. should be forbidden to recover the royalties which it otherwise would have been entitled to recover, so long as that misuse continues.

And it is our contention, sirs, that that misuse continued until this decree was signed, and until this decree opened up all of the patents, opened up in the form of licensing and forbade the further continuance of all of the bulletins which regimented the industry in the form of distribution and production and prices—that until this decree was signed on May 15, 1951, that misuse continued. And we urge upon Your Honors that following the Morton Salt doctrine, and the doctrine of the Hartford Empire Case, [fol. 1329] and the National Lead case, all of which are thoroughly discussed in our briefs, Your Honors should now say to United States Gypsum, "You have misused these patents," and even though the face of the decree does

not say that you cannot bring these suits, "We now say to you in order to implement this decree and effectuate its basic purposes as laid down by the Supreme Court that you cannot continue to bring these infringement suits for royalties for a period of time that you have misused these patents."

And to that extent, a patent is a very different from an ordinary property.

I thought, for example, this analogy, that if you are riding in a taxicab and the taxicab driver violates the law by speeding or passing red lights or any number of the laws of the city or state and commits misdemeanors in doing it, still when he gets you to your destination he is entitled to his fare.

The courts have held, and it seems to be well settled law by a long line of cases, that if you have a patent and you violate the law in using the patent, your passenger, your licensee, does not have to pay you the royalties. And the cours*t* have said "We do that not as a favor to the licensee—we do not say that because you are a licensee you do not have to do it—we do it in order to uphold the public policy as expressed in our antitrust laws, and the public interest which is determined to be against any form of [fol. 1330] monopoly other than that allowed by our patent laws."

And I have found some very apt language in a case which is not cited in our brief, and I would appreciate it if Your Honors would just make a note of it, 166 Fed. 2nd 61, which is in the Fifth Circuit, 1948, Hawkinson Company v. Dennis, in which the court says this much better than our brief does. And if you will bear with me to read this short excerpt:

> "In patent infringement cases, however, the patent being a public grant made in the interests of the public and the public interests being always present, courts have been quite liberal in allowing infringers and licensees to escape being brought to book for their infringement."

And this was an action for a patent infringement. And the defense of misuse was interposed. And then a sum-

mary judgment motion was made by the defendant on the ground of the misuse, and the court there dismissed the complaint and entered judgment for the defendant, even though it was quite clear it was an infringer, but just on the misuse proof, and the court continued:

> "If, therefore, the district judge was right in the conclusion that it was established as a matter not of fact but of law, that is, by undisputed evidence, and the inescapable inferences to be drawn therefrom, that the plaintiff had been"—that is the patentee—"and still [fol. 1331] was misusing its patent, the judgment ought to be affirmed without prejudice, of course, to the plaintiff's right to again sue when it can show that it has purged itself of wrongful uses and practices."

We urge, sirs, that it has been found by two Supreme Court decisions that there has been a misuse of these patents. And we urge and shall urge in the course of my argument that as a matter of law U.S.G. has not purged itself of this misuse and could not have purged itself of that misuse until this final decree was signed. And when that final decree was signed for the first time you can say that there was a purge, a liability for royalties re-arose, but anything that had come before that final decree was signed was under the doctrine of this case and a long line of cases held to be uncollectible.

Now the similarity between the Hartford Empire case to which I have alluded a number of times, and this gypsum case—we have pointed out in great detail in our belief. They are almost the same, so far as the misuse is concerned, in that they misuse the patents to accomplish an aggregation of restraints so as to regulate and regiment an entire industry.

The Supreme Court said that about the Hartford Empire case. And the Supreme Court said it about the U. S. Gypsum case. And in the Hartford Empire case the decree enjoined the enforcement of the patents for any time prior to the entry of the decree.

[fol. 1332] And in the U. S. Gypsum case, which was found to cover the same kind of misuse, we are urging Your Honors

to make a similar decree to enjoin the enforcement of any suit prior to the entry of the decree.

When Your Honors come to examine the second U. S. Supreme Court opinion you will find that it said specifically that the restraints in this case were very similar to those in the National Lead case. It said that this case was at least on a par with the National Lead case. And in the National Lead case, as Your Honors will find on examining it, they did what we are asking Your Honors to do in this case, namely, enjoin the prosecution of any infringement or royalty action before the date of the decree, so that there can be no doubt in my mind, and I am sure there will be none in Your Honors', that if this case in Iowa had been brought—if this case in Iowa had been in existence at the time that this court signed its decree that it clearly would have enjoined the action in Iowa. It must have enjoined the action in Iowa if it found as it did this extensive misuse and absence of purge.

And, threfore, as I shall say later, what we are asking Your Honors to do is to do now what I am sure what the court would have done had these suits been brought in Iowa at the time.

At the time this decree was signed, what they were thinking about then was only about actual suits on these licenses, actual claims under the licenses. And they held that the licenses were null and void and, therefore, not actionable. [fol. 1333] Now, however, as we now see U.S.G. is not only claiming under the licenses which we think flies in the face of the decree, but it also seeks to recover for infringement. And we say to Your Honors now that it becomes clear that what U.S.G. has in mind is to sue us as infringers. Then Your Honors should do now what the court would have done had such an action been in existence at the time that this decree was signed.

[fol. 1334] In other words, we say that the changed circumstances, if nothing else, and the cases hold that in such cases you can implement your decree; that the changed circumstance here is that now there is a suit pending which claims we are infringers because we have not paid the royalties, and we urge that Your Honors should do now what you would have done had that suit been in existence at that time, namely, to enjoin.

With respect to this infringement and misuse, U.S.G.'s contention is that there was not any misuse at all within the framework of Hartford Empire or National Lead, that it is not the same as the Hartford Empire case; that the facts are very different and it based its entire case with respect to this by saying that the only facts that were proven in this case was not the misuse that we claim, but merely the illegality of the price-fixing provisions in these licenses which dealt only with patented board. And it says that the fact that that is so is proven by the following.

Your Honors will recall that at the time of the formation of the first decree by this court which was later enlarged, Judge Bromley on behalf of U.S. Gypsum, made a proffer of proof and stated, "We offer to prove that there was no plan to regiment the industry. We offer to prove that there was no plan to eliminate jobbers or to regulate the production of unpatented products; that there was no plan to fix prices on unpatents products; and that there were no restraints of any kind of unpatents products; and [fol. 1335] that the only illegality that was committed was that we sought to fix the prices on patents board, and that was done by a number of licensees."

Their entire case is based on these two misconceptions. The first is that the only illegality found consisted of a plurality of price fixing of patented gypsum board, pursuant to separate lawful license agreements. That is patently unsound, because the Supreme Court said twice that the agreements were only a part of a larger conspiracy, of a large regimentation consisting of these hundreds of bulletins which not only restrained but monopolized trade in all the gypsum products, so that it is legally unsound that the only illegality found was the illegality of plurality licenses.

And yet Your Honors will find when you come to read the U.S. Gypsum brief that that is basic to their entire argument.

The second basis to their entire argument is a factual misconception, namely, that the accepted facts in this case and, therefore, the controlling facts are those set forth in the proffer of proof. That is not so.

The controlling facts in this case are the facts which were found by the Supreme Court in its second opinion and

which were set forth by the Supreme Court succinctly in the second opinion. And it shows very clearly that they did not accept the proffer of proof as the accepted facts or even as to true facts. The facts as found by the Supreme Court were very succinctly stated.

[fol. 1336] I would like to discuss and just point these out to Your Honors in the second Supreme Court opinion.

The second Supreme Court opinion pointed out what the actual violations of law were. And I will come to that after I have discussed the first court opinion, if Your Honors please.

But they made it very clear that the facts accepted in their opinion were not the facts as set forth in the proffer of proof by Judge Bromley. And it must follow that they did not accept those facts, because if the facts contained in Judge Bromley's proffer of proof had been accepted, then this litigation would have gone the other way, because Judge Bromley offered to prove that none of these things which were found by the Supreme Court to have happened actually did happen, and if those had been accepted as the facts in this case, then the motion for summary judgment should have been denied rather than granted, and the decree entered by the District Court should not have been enlarged as it was by the Supreme Court.

But U.S. Gypsum contended this same thing, and that is the reason that we go into such detail about this in our brief. They contended—they made this same contention at least five times during the course of this litigation before this court and before the Supreme Court, namely, that the only illegality was this plurality of price fixing licenses, and in each of those instances the court overruled them and said, that is, with the exception of the first decree, the first judg-

[fol. 1337] ment of this court which was later reversed—the courts continually overruled this contention and pointed out that there was not just price fixing of patented gypsum board which was involved, but that there was a complete regimentation of the industry, that the industry was completely organized in all of these various ways that I have spoken of. So that the illegality was not this narrow price-fixing one, but an illegality which permeated the entire industry, which regimented the entire industry.

And in spite of this, U.S.G. still maintained as the basis

of its argument here that it did not misuse its patents, and that it was not guilty of the same misuse as the Hartford Empire case; still is here fighting the same battle which it fought on five different occasions, as we outlined them in the brief. And each of which was decided against them by the court, but they are here now pointing out, urging that they are not subject to the misuse doctrine, because the finding against them was a very narrow, limited one, instead of the vast finding which the Supreme Court in its first and second opinions made with respect to this regimentation of the industry.

After the complaint had been dismissed by this court, as I stated, and I should point out to Your Honor that this complaint was not based on any narrow price-fixing violation—this complaint was based on all of the bulletins that I have talked about—the complaint complained of price fixing of gypsum board, whether it was patented or [fol. 1338] unpatented—it complained of raising prices for plaster and for all gypsum products—it included in the complaint the elimination of jobbers and it covered all of the misuses which I have described and which were described in the Supreme Court opinion.

When this court after the first trial dismissed the complaint it made findings of fact which bore out what U.S.G. is now contending. And it was contrary to the contention of the Government. And it made findings to the effect that there was no agreement to raise the price of unpatented board, no agreement to standardize board, no agreement to eliminate open-edge board, no agreement to eliminate jobbers. And its most important finding, which was referred to in the opinions as Finding No. 118, was as follows: The court found that the evidence fails to establish that the defendants associated themselves in a plan to blanket the industry under patent licenses and stabilize prices as charged by the Government. On the contrary, there was no such plan or enterprise to blanket the gypsum industry with patent licenses and stabilize prices.

In other words, U.S.G. won a complete victory in the first case in these findings.

On appeal to the Supreme Court of the United States by the Government those findings were reversed. And I repeat, the reason that I go into this is that those very

findings of the District Court which were reversed in the Supreme Court formed the basis of Judge Bromley's prof-
[fol. 1339] fer of proof when it came back after reversal, and the question of summary judgment arose. And they are exactly the things which U.S.G. is urging now in its brief.

The opinion of the first Supreme Court was divided in five parts, and they are numbered in five parts. This is the first opinion which reversed the District Court here.

The first part of the opinion sets forth in great detail what was contained in these bulletins and how U.S.G., starting in 1926, began to regiment this entire industry by means of this patent which closed the edge of the board, and by means of two other patents, the so-called Haggerty patent and the Roos patent. The Roos patent is the one under which it is now suing us.

It shows very clearly, this first Supreme Court opinion does, how U.S.G. began in 1926 and completed in 1929 the regimentation of this entire industry by means of these license agreements. And then it showed that in Part 2 it ruled that the Government is free to show that the patent itself was invalid. That is not important here.

In Part 3 the Supreme Court found the conspiracy in the following language: The industry-wide license agreements entered into with knowledge on the part of all with the control over prices and methods of distribution through the agreements and bulletins were sufficient to establish a prima facie case of conspiracy.

Then it went on. It held that the General Electric case
[fol. 1340] on which U.S.G. relied here in the first Supreme Court case and here in this District Court did not protect this kind of misuse of a patent.

And then it proceeded to consider the findings which had been made below. And it said that the trial court had made certain findings of fact and unless we reversed them, why, then, U.S.G. will be able to obtain the fruits of its unlawful monopoly.

So it proceeded to reverse the findings which had been entered in by this court as erroneous. It reversed the finding made here, and held that the defendants had conspired

to eliminate the production of open-edge board. They had no patent on open-edge board.

The court found that even though they did not have a patent they had conspired to eliminate it. They found that the defendants had acted in concert to eliminate jobbers. They found that the defendants had stabilized the price of unpatented plaster, and on unpatented gypsum products.

And it concluded in Part 5 that on the undisputed facts, in spite of the patents, and in spite of the fact that they alleged, U.S.G. did allege that it was merely protecting its patents, that the defendants had plainly violated the Sherman Act.

The court said they had done it by controlling prices and distribution in unpatented gypsum board as well as patented gypsum board; that they had completely regimented, monopolized the industry. And as they put it, that all [fol. 1341] former competitors had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices.

And then it said, "This is a violation despite the assumed legality of each separate patent license for," as it said, "lawful acts may become unlawful when taken in concert."

U.S.G. has seized upon this language assuming despite the assumed legality of each separate patent license, and tries to argue in its present brief that in some way these licenses are legal, because the Supreme Court said, "We would assume the legality of each separate patent license."

Well, now, this is a sentence which is ripped entirely from context, because what the court said right following that was, "That lawful acts may become unlawful when taken in concert."

Each of these licenses, if there had only been one, would have been lawful under the General Electric case, but what the Supreme Court said was that when you get an entire industry, you give them each the same agreement, and each one knows that the rest of the industry is doing it, and each one knows that everybody's price is going to be fixed, then you have gone far beyond the General Electric case, and you have violated the antitrust laws de-

spite the assumed legality of each separte patent license. [fol. 1342] And I repeat, USG is trying to argue that that language justifies their contention that the only illegality found here was the fact that many licensees had signed the same license. But the illegality found here in the Supreme Court, in its first Opinion, was that all of these other things had been done by bulletins which regimented and organized the entire industry.

After the Supreme Court in its first Opinion had reversed the District Court and remanded it down here for further proceedings, as I say, there was argument here and a proffer of proof, and that proffer of proof offered by USG was about the same as the findings which had been reversed.

Judge Cole: What was the date of the filing? When was the proffer of proof filed?

Mr. Rosenman: In 1949.

This came back here for remand in 1949, and the motion for summary judgment was made in 1949. USG made its proffer of proof in 1949.

Mr. Bromley: That was June, 1948, if I may correct it.

Mr. Rosenman: I am sorry; it was 1948.

The proffer of proof was made in 1948. The argument was on June 13 and 14 of 1948, and the proffer of proof was made in 1948. The memorandum, which I stated was submitted by USG, was also in 1948. This was after the first reversal by the Supreme Court.

[fol. 1343] That proffer of proof, as I say, was, on the whole, the same as the findings of the Court, namely, they offered to prove that there was no plan to blanket the industry; that there was no plan to eliminate open-edge board; that there was no understanding to eliminate jobbers; no understanding to stabilize prices of plaster or any unpatented products; and that all of the acts taken by USG were merely to protect its lawful patent.

The District Court heard argument and accepted memoranda on this motion for summary judgment, and it granted summary judgment in spite of the proffer of proof. The language of the Court is cited in our brief.

The Court took the position that under the Supreme Court Opinion that even if the facts alleged in their proffer of

proof were proven that it would not interfere with the granting of summary judgment because of the language of the Supreme Court in its Opinion.

Here, too, USG argued that the only illegality was the price-fixing of the patented gypsum board and the plurality of licenses, and that was argued at great length, and excerpts from that argument submitted to Your Honors, and the Court ruled to the contrary.

After it had ruled to the contrary, it asked various parties to submit proposed decrees, and decrees were submitted, and memoranda were submitted by the various parties on the decrees and on the findings and conclusions which [fol. 1344] were submitted to this Court. Those memoranda and those findings and conclusions submitted by each side are before the Court now.

U. S. Gypsum contended again in its memorandum that the District Court had decided summary judgment only because the defendants had become parties to a combination by plurality of licenses and not because of any conspiracy extrinsic to the plurality of licenses.

That is a quote from the memorandum of USG.

The Government, on the other hand, contended that its decree was based on the entire conspiracy, and not only on the fact that there had been a plurality of licenses, but because of USG's contention. USG urged that the terms of the Government decree were improper because there had only been a narrow declaration of illegality. The Government's decree was based upon the entire proof of regimentation.

The difference between USG and the Government at that time is still the difference between USG and us insofar as misuse is concerned.

USG still insists that its illegality had to do only with licenses on patented board, and we refer to the Supreme Court Opinion to show that it had to do with the entire regimentation.

After the argument briefs were submitted again, and it was in this memorandum submitted by U. S. Gypsum on July 23rd, which is on file here and of which we have extra [fol. 1345] copies, USG at that time devoted itself exclusively to the differences between what it was urging and

what the licensees were urging, and it urged in that memorandum that the compulsory licensing provision should be narrower than the Government was urging, and it urged that there should not be a declaration that these patents were null and void but that the declaration should be merely that the price-fixing provisions were null and void.

Judge Stone: You mean to use the word "patent" or "license"?

Mr. Rosenman: I mean license. Thank you, Your Honor.

They urged that the license agreement should not be declared null and void, but that only the price-fixing provision should be declared null and void, and they stated very clearly what they understood null and void would mean. They pointed out that the purpose of the licensees in urging that there be a declaration that the license be null and void was that the royalties should not be paid.

So that it is clear that this Court was apprised at least of that, of USG's understanding of what null and void would mean.

The Government itself on the next day submitted a memorandum in which it asked that its proposed decree which up to that point did not have the words "null and void" in it, but it urged that its proposed decree be amended so as to include the declaration of null and void, and with that the [fol. 1346] Court took it under consideration and on November 7, 1949 made its first decree in favor of the plaintiffs.

In that decree, which was later superseded by the second decree—but in that decree of November 7, 1949—that is what led me astray to say 1949 instead of 1948—the decree was on November 7, 1949—this Court stated that there had been a violation of Section 1 and Section — of the Sherman Act; that there had been restraint and monopoly; and it directed compulsory licensing; and it made the declaration for the first time that these license agreements were illegal, null and void, and that they were not just the price-fixing provisions that were null and void but that the entire license agreement was null and void.

So that this was a second decision against USG's contention that only the price-fixing provisions are null and void.

As I stated, from that decree there were two appeals.

USG appealed, and while the record is not clear, we think that it was as a result of USG's motion that this decree was stayed, pending the appeal, so that this first decree never became effective. We know that it was stayed.

I think from reading the record it can be inferred that it was on application of USG that the decree was stayed pending appeal.

So USG appealed and the Government appealed.

[fol. 1347] USG claimed that it should be allowed to prove its proffer of proof.

The Government claimed that this decree of the District Court was not broad enough to accomplish the purge which it was seeking to obtain and which the first Supreme Court Opinion said was necessary.

Now, it came up finally to the Supreme Court in 1950, to this second Opinion, on the basis of which this final decree was finally formulated.

The Supreme Court Opinion was in two parts. In the first place, the first part, it held that these price-fixing provisions and knowing concert with each other throughout the entire industry clearly entitled the Government to a decree, and the fact that the defendant had offered to prove that there were good intentions and that the purpose of the practices was merely to protect its patents were not enough, as it said in quotes:

> "To make legal concerted action under patents to stabilize prices."

And then it said:

> "Even accepting the underlying facts in defendant's proof by offer is true, the Government is still entitled to a decree."

USG has seized on that phrase, as Your Honors will see when you come to reading the brief as the foundation for its [fol. 1348] argument, that there was no misuse here, because the Supreme Court accepted the underlying facts in defendant's proof to be true.

The fact is that the Supreme Court did not accept the facts as alleged by USG in its proffer of proof. It did not accept the facts as alleged, even though it may have ac-

cepted what it calls the "underlying facts" or "the evidentiary facts."

For example, USG said that when it sought to fix the price of plaster or some unpatented product, that all that it was doing was attempting in good faith to protect its patent monopoly; that there was no plan to regiment the industry with respect to unpatented products; that all that it was doing was seeking to protect its own patents; and the Court in its Opinion, as I said, pointed out that the actual underlying facts of what it did, namely, sending out bulletins saying that:

> "You cannot charge more than a certain amount for plaster; you cannot give rebates on plaster,"

accepting that as true, it still does not justify this proffer of proof in its conclusions and intentions, namely, that although we did that, we did not intend to regiment the industry; we merely sought to protect our own patents—what the Supreme Court was saying:

> "Even if we believe it is true, that that is the reason you did it, although you had good intentions and good [fol. 1349] motives, we reject that conclusion as being immaterial and irrelevant; that if the facts are that you did things, you did certain things which resulted in regimenting and organizing the industry, we will hold that those should be barred; that those should be banned as a part of this conspiracy to regiment the industry, even though you had the best of motives and the best of intentions."

And that is what we urge the Supreme Court meant when it said:

> "Accepting the underlying facts in defendant's proffer of proof as true,"

that there is still a plan to regiment, that there is still an actual regimentation of the industry, even though you now say that you want to prove that you did not intend to do it. In other words, your intention and good motives are entirely irrelevant.

In this Opinion it is quite clear that it did not accept the

proffered facts as true, because it points out—it actually proceeds to enlarge the decree which the Court below had made. Quite obviously, if it was going to accept those facts as true, it would not have enlarged the decree below, but it did enlarge the decree below to extend the decree from the patented board to which the decree below was limited to unpatented boards.

[fol. 1350] It enlarged the injunction to cover all gypsum products.

It enlarged the injunction to cover jobbers, and to cover the basing point system.

And it insisted upon compulsory licensing. In other words, the basic erroneous conception of USG that the Supreme Court in its second Opinion accepted these facts as true is very clear from the Opinion itself, because it sets forth the six facts which it says were proved below.

[fol. 1351] In other words, the second opinion of the Supreme Court said that the defendants constituting all former competitors in the industry acted in concert to restrain commerce in an entire industry. It found that as a fact.

It found as a fact that the price of gypsum board was stabilized; that is, the patented gypsum board and unpatented gypsum board.

It found as a fact that the production of open-edge gypsum board was restrained by requiring a royalty on it.

It found that prices were fixed in the sale of plaster and miscellaneous gypsum products.

It found as a fact that jobbers were eliminated.

And it found as a fact certain trade practices were standardized contrary to the anti-trust laws.

So that it found as actual facts. And what I have just enumerated as the facts will be found in so many words in the Supreme Court's second opinion.

It found those facts, each one of which contradict the facts proffered to be proved by U. S. G. So that you cannot say that the Supreme Court accepted the facts contained in the offer as the basis of its decree. Quite the contrary. It rejected the facts as offered to be proved and found the facts as I have stated.

On the basis of that we say, and the Supreme Court says that the misuse was just as bad as it was in the National

[fol. 1352] Lead case. And that the same remedy should follow. And in spite of that fact we still have before us the contention by U. S. G. that there was no misuse of these patents.

Coming to the third point, if the Morton Salt doctrine means anything—and the Morton Salt doctrine is quite clear that in a suit between private litigants if there is a contention of misuse—if a patent has been misused, a man sued for the misuse has the right to set up that misuse to avoid the payment of royalties. We contend that that misuse has been proved here. It has been proved by the finding of misuse twice by the Supreme Court of the United States and by this decree. We think, as a matter of proper administration of justice, instead of having these defendants raise the defense of misuse in these various courts and have them tried all over again, although I have not completed enough research and it is immaterial here, but it may be that if we are really relegated to try the defense of misuse in Iowa, that we may have to try this whole case over again, that we may have to make this whole record over again in order to show misuse—if that is so, why it would seem to be the proper administration of justice to have this court undertake to pass upon that misuse and purge question as between these private litigants, rather than to have this multiplicity of suits in three jurisdictions where the holdings may be diverse, depending upon the view of the law which the particular District Judge takes in that case.

[fol. 1353] So that even if your Honors do not find that on the face of the decree the suits should be barred, and even if your Honors do not find such misuse as to warrant you in implementing your decree by an injunction similar to the Hartford Empire and National Lead cases, then we urge your Honors to pass yourselves upon this question of misuse here in this court, instead of relegating us to three different courts to try it.

The fact is, and we urge that this court will find as a matter of law that there was no purge, in this case; that the differences between the first 1949 decree and this second decree are so great that no one can say that there was a purge as a matter of law until this second decree was

signed, because the Supreme Court in its second opinion pointed out time and again how much more was necessary than this first decree in order to open up these patents and to remove the misuse.

We think that it is clear that as a matter of law, U. S. G. cannot show that there has been any purge at all since the original date that the Supreme Court held that these patent licenses were illegal.

U. S. G. does depend upon five facts which it urges in its brief as constituting a purge. And in our brief we have tried to show that these facts do not in law constitute a purge.

It first claims that in 1941 it sent a letter to us, to its licensees, claiming that no new price-fixing bulletins will be issued.

[fol. 1354] We claim, and the cases show, that there is no purge by a mere statement that we will not fix prices in the future; that the only purge would have been if they had actually cancelled the license agreements, so that they no longer had the power to fix prices. The fact that they sent us a letter saying that they were not going to fix prices means that the next day they could have changed their mind and fixed prices. So that that could not possibly be a purge.

The second fact that they say constitutes a purge is that they made an offer of an unobjectionable license at the time of the first signing of the decree in 1949. They never made such an offer. They said merely that, "If you will approve we will offer these to licensees." And as a matter of fact, they then stayed the decree, so that that license could never have become effective.

And in the third place it was not an unobjectionable license, because it is very different from the license which they are now compelled to issue under the decree of this court. So that the fact that they said they had submitted a decree for approval, I mean, submitted a license for the approval of this court in 1949, cannot be urged as a purge.

They also claim a rescission in 1948. There is no proof of that, but even if there were, the fact is that they still claimed by their suit in Iowa that they are still asserting the validity of these license agreements. Their counts 1 [fol. 1355] and 2 and 3 and 4 indicate that they do.

They say that this first decree of 1949 might be a purge, but the obvious answer to that is that it could not have been a purge, because the later decree was so greatly enlarged by the Supreme Court that the first decree simply cannot be considered a purge.

They also say that the order of the Supreme Court, the intermediate order, forbidding price-fixing, might be a purge. And the answer to that is that the Supreme Court thereafter enlarged the decree so much that its idea of what a purge was, was entirely different from merely doing away with the licensing price-fixing provisions.

Just a minute on jurisdiction, because the claim is made by U. S. G. that this court does not have jurisdiction.

Judge Stone: We are so near the time that we probably should recess. It might be better to take up that subject later, so that you can carry it through.

Before we take the recess, there is one matter that the court wishes to call to the attention of counsel for Certain-teed, and that is this: The main brief and the reply brief for that company have no indices, either of subject matters to be discussed in the brief or of authorities. It is a little difficult for the court to properly handle and cross-reference briefs which have not that help in them.

Mr. Miller: We will supply it for the court by tomorrow [fol. 1356] morning.

Judge Stone: That will be entirely satisfactory. Both volumes of indices.

Mr. Miller: All right.

Judge Stone: Mr. Marshal, you may recess the court until 2:00 o'clock.

(Whereupon, at 1:00 o'clock p. m., a recess was taken until 2:00 o'clock p. m., of this same day.)

[fol. 1357] AFTERNOON SESSION

2:00 p.m.

Judge Stone: Judge Rosenman, I think you were approaching the subject of jurisdiction.

Mr. Rosenman: Yes, sir.

ARGUMENT OF BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman—resumed

Mr. Rosenman: If Your Honors please, just as we have divided the theory of our case into three points, we feel, and in our brief we show with respect to each of those points, that this court has jurisdiction, and we would not presume to spend as much time as we did on jurisdiction because we almost would take it for granted, except for the fact that U.S. Gypsum has spent a great deal of time on questioning the jurisdiction of this court to administer the relief which we request.

Certainly so far as our first theory is concerned, that this court has jurisdiction and should compel obedience to its decree, it would seem to be almost elementary that it has. I think that any court, any equity court, having made a decree, has the power to enforce compliance, and I should think that this court, if at some time it had read that this litigation had been started in Iowa, and remembered the fact that it had declared these agreements null and void, it would be an elementary thing for it to have the marshal call the lawyers in and have him ask them, "What is going on? In spite of our determination that these licenses [fol. 1358] were null and void, you are still suing on them in Iowa."

Certainly the fact that we have a defense in Iowa alleging that the licenses are null and void should not bar this court from exercising its elementary power of seeing that its own decree is obeyed. We think that the suit in Iowa, at least so far as the causes of action alleged there are concerned—that those suits are in a sense non-compliance with the decree, and to that extent if the court is of the same opinion, it certainly has the power and the jurisdiction to see that is decree is respected and enforced, and that its integrity is maintained, and we think that maintenance of the integ-

rity of this decree requires that U.S. G. cease its operations and litigation in Iowa and in New York and in New Jersey.

With respect to our second point, namely, that even if the decree is not being, in terms, flouted in Iowa, still this court has the power to implement it in order to effectuate its basic purpose, and our brief has shown a number of cases which have applied various tests to the power of a court to implement its decrees so as to effect its basic purpose. That is particularly true where circumstances have changed, and the test seems to be whether the request for modification in the decree, where circumstances have changed, has been for the purpose of effectuating or thwarting the basic purpose of the decree.

In the Armstrong v. DeForest Radio case, which is discussed at length in our brief, the question there was whether [fol. 1359] the plaintiff had the right to come to the court and ask for a supplemental injunction to reach a device which was not in existence at the time of the original decree, and the court there held that such supplemental decree was possible, not only possible, but proper, and pointed out that that was not amplifying in any sense the original decree, but was, and I am quoting "was to specify and apply the injunction to actions and objects non-existent when decided."

Now, the thing that was nonexistent here when this original decree was signed was this claim of infringement. There never had been a claim of infringement made, and there was no necessity to include that in the decree. We think that by fair intendment it is included in the decree, but if Your Honors disagree with us, as I say, we ask you to implement it and certainly jurisdiction exists by the fact that now it appears that it is necessary in order to effectuate the basic purpose of this decree, that the action for infringement be enjoined, and we are asking Your Honors to do it, and these cases, like Armstrong v. DeForest Radio, and Hughes v. The United States, seem to make it quite clear that Your Honors can take cognizance of the present circumstances and implement your decree by a provision that the infringement suit in Iowa should be stopped.

As I say, that is not amplifying or expanding. That is merely implementing what you have already decided, namely, that you want to dissipate the evil effects of the decree,

[fol. 1360] and the only way you can do it is by forbidding these pre-decree royalty suits.

The argument in opposition to this is chiefly that National has no standing to sue here, that this action was an action by the Government against a number of licensees, and that only the Government could come in with this request. We urge upon Your Honors that that is an untenable position.

In the first place, the decree itself, in Article X, provides that there is a reservation of jurisdiction for any party, as I emphasized when we were going over the decree. It is not only the United States Government, but any party has the right to apply to Your Honors for implementation of the decree. And as a matter of fact, in this case the Government itself has urged that this court has jurisdiction, and it certainly does not take the position that it alone has the standing to come in and ask for implementation of this decree.

Judge Worley: When you say "implementation," just what do you mean by "implementation"?

Mr. Rosenman: To provide a new means or an additional means of carrying out the original purpose of the decree, the original purpose being, as the court said, to cure the ill effects and to dissipate it. We think that stopping a royalty suit and making it clear that a misused patent does not give rise to a cause for infringement, as the cases hold, that is one of the most effective ways of breaking up a conspiracy.

[fol. 1361] If you were to tell members of a conspiracy, licensees, that you refuse to abide by this unlawful conspiracy, if you refuse to pay royalties and carry out the provisions which laid the basis for the royalty, that that is the best way of breaking up the conspiracy, and we think that implementation in this form, if carried out by all the courts, would be the best means of breaking up antitrust conspiracies of this kind.

Judge Worley: Implementation is, then, synonymous with all of Article X, modifications, orders, and so forth?

Mr. Rosenman: Yes. We think that Article X includes implementation, but we take the position that even if Article X were not in the decree, this court has equity powers reserved in it to do everything that Article X says.

Judge Worley: Thank you.

Mr. Rosenman: We cite a case which we think is on all

fours, Terminal Railroad v. The United States, where a decree was obtained in antitrust against several groups of defendants, and one group of defendants in subsequent years started a contempt action against another group of defendants, and the court held that there was jurisdiction in the court to consider that action. The fact that they were both defendants, or that they were all defendants, did not mean that in a later controversy between the two sets of defendants, this court has been deprived of jurisdiction, and we think the same situation is presented to Your Honors here, that the fact that it is a defendant or a number of [fol. 1362] defendants which is seeking to invoke the jurisdiction of the court should not be a bar, as U.S. Gypsum contends.

We point out in our reply brief also that the various cases cited by U.S. Gypsum on this point are not applicable, and I do not wish to take the time to go into them in detail. We feel that with each of our points, namely, that this decree itself is clear on its face that it has been violated, and secondly, that if it is not clear that this court can implement it, and in the third place, that as between private litigants, this court can step in in order to prevent a multiplicity of suits and a possible diversity of results, with respect to all of these different theories of our petition here, this court has ample and complete jurisdiction.

If Your Honors please, I stated that we had several copies of this memorandum which I would like to submit. These are actual copies of the memorandum. In addition to that, as Your Honors can well see from my argument, these decrees are quite complicated in their development, and so are the findings, and we have prepared for the convenience of the court, and have served on the other side, some printed material which carries all of these decrees from the very beginning to the very end in tabular form, and which also refer and quote the findings which were submitted by the plaintiff and which were found by the District Court and which were contained in the U.S. Gypsum proffer of proof, and what the two Supreme Courts did with respect [fol. 1363] to these proposed findings, and I would like to submit these to Your Honors. They are quotations from the actual record, and I am sure that if there is any mistake, which we have been very careful to avoid, Judge

Bromley will call them to your attention. I think they are a reflection of the findings from court to court, including the proffer made by U.S.G.

With respect to the findings, and I think they will help the court in following the development of the decree as well as the findings, I would like permission to submit them now to Your Honors.

Judge Stone: Certainly.

Before we get too far away from it, Judge Rosenman, would your argument as to implementation concerning infringement also apply to the quantum meruit count of the petitions?

Mr. Rosenman: Yes, sir. We think that the quantum meruit count is even more clearly barred by the face of the decree, but if for some reasons Your Honors do not agree with that contention, then we urge that in order to implement at least the finding of nullity and voidness as well as misuse, Your Honors should issue an injunction against those two causes of action, also.

Judge Stone: That is, misuse would void any recovery in any form on any legal theory?

Mr. Rosenman: That is what the cases hold, Your Honors, and that is what National Gypsum and the other licensees urge here.

Thank you.

[fol. 1364] Judge Worley: May I ask one question? I am not quite clear on the analogy you drew between the passenger in a taxicab and this case. The passenger still owes him even though he has run red lights and committed other misdemeanors?

Mr. Rosenman: Yes, sir.

Judge Worley: By that you mean that the licensor of a patent is entitled to quantum meruit?

Mr. Rosenman: He is entitled——

Judge Worley: Is he entitled to be paid by the licensee?

Mr. Rosenman: In the taxicab situation?

Judge Worley: Yes.

Mr. Rosenman: We say that he is. In the taxicab the man who owns the taxicab is entitled to be paid by the passenger if he gets him to his destination unharmed and with no injuries and no accidents, and we think that that is different from the case of a patent, in that if you have a

patent, and the licensor of the patent and the licensee, if they do not commit any violation of law then the licensor is entitled to his royalties. If, however, the licensor, with or without the licensee, commits a violation of the antitrust laws, we urge that the courts have held that that violation is so flagrant a violation of the public policy of the country and the public interest, that even though the licensee gets the benefit of the patent, it is forbidden to pay it, not as a matter of favor to the licensee but as a matter of protecting the public interest.

[fol. 1365] Judge Worley: Thank you.

Mr. Rosenman: And we urge and have cited cases which sustain that conclusion.

[fol. 1366] Judge Cole: Is the amount involved in the Iowa case subject to proof, assuming, now, that you go back to the trial of that case?

Mr. Rosenman: No, it is not.

Judge Cole: Is that conceded?

Mr. Rosenman: I am informed by my associate, Mr. Finck, the regular counsel of National Gypsum, that that is in dispute. The amount is in dispute.

Judge Cole: It is in dispute?

Mr. Rosenman: Yes. As a matter of fact, even the validity of the patent is in dispute there. But I did not think that those were material to the presentation of my argument. But we have denied the validity of the patent under which they are suing us in Iowa, and I am informed that the amount of board sold would not admit the amount claimed in Iowa.

Judge Stone: Do you draw any distinction, Judge Rosenman, in the legal effect of the expressed provision in Article X of quoting modifications and the general broad power of a court of equity to change its decree to effect the purposes, so long as it does not exceed certain limits which some of the decisions of the Supreme Court have laid down?

Mr. Rosenman: I draw no such distinction, your Honor. I think that both under Article X and under your Honors' general equity powers, you can do all of the things that are set forth in Article X.

[fol. 1367] Judge Stone: Thank you.

May the court ask each counsel as they start to address us to give his name, and so forth?

Mr. Miller: Yes, sir. My name is Norman Miller, of the law firm of Clausen, Hirsh and Miller, representing Certain-teed Products Corporation, one of the defendants in the anti-trust action, and a petitioner in this court.

Argument on Behalf of Certain-teed Products Corporation

By Mr. Miller

Mr. Miller: May it please your Honors, I will not attempt to go over any of the matters that Mr. Rosenman so ably covered. Under the arrangement we have made between us with regard to how our time was to be divided, it was agreed, and I am now going to address this court with regard to the question of quantum meruit.

Mr. DeWitt, who will follow me on behalf of Newark, and Mr. Rippey for Ebsary, also, will cover the question of misuse as applied to the infringement and the general summing up.

The starting point with reference to the question of quantum meruit, in our opinion, is the provision of Article IV of the decree, which says that each of the license agreements listed in Article II is adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void. There are no exceptions contained in that language. [fol. 1368] There is no statement in that language with reference to the narrowness of any illegality or any limitation upon that illegality or any limitation upon the words "null and void."

That decree, and that provision of the decree, was entered at a time when the Supreme Court of the United States had determined the cases of Katzinger Co. v. Chicago Metallic Manufacturing Company and McGregor v. Westinghouse Electric Company, both of which are cited in our brief and in the briefs of the other petitioners.

In those two cases, the Supreme Court had determined that unlawful price-fixing provisions in a patent license agreement were not severable from the remainder of the contract or license provisions, and that when you struck

down the license, as they did in those two cases, you struck down the price-fixing provisions as well.

Thus as a result of Article IV, based upon the opinions of the Supreme Court in the first and second cases, the court struck down the entire license agreement between the parties and the entire transaction which gave rise to that license agreement. That included any price arrangement or any royalty recovery that the plaintiff, the licensor, was entitled to get.

Now, in effect, U.S.G., United States Gypsum Company, in its brief has recognized that if these license agreements were illegal, to use their phrase, were inherently illegal, they would have no right to recover under the theory of [fol. 1369] quantum meruit. They say at page 93 of their brief that if it can be demonstrated, as here, that the contract sued on was not inherently illegal, or, as the court stated in Bruce's Juices, a case referred to by Mr. Rosenman earlier, that the suit did not have as its object and effect accomplishment of illegal ends which would be consummated by the judgment sought, then the doctrine of quantum meruit would not be applicable, but that if it was inherently illegal, then they admit that the doctrine of Bruce's Juices would apply, and they could not recover on quantum meruit.

In Bruce's Juices, the United States Supreme Court said very clearly, "The law as established by this court is clear that transactions under a contract void for illegality will not sustain quasi-contractual or other rescissionary relief any more than an action upon the contract."

Now, there is nothing said in that quotation—and I read the quotation from the court's opinion—there is nothing said about inherent illegality. It says "illegality." There cannot be, to my mind, any clearer use of the English language than to say that a contract is illegal, null and void, which is what this court said despite the vehement protests of U.S.G., and despite their efforts to have the decree eliminate that provision and contain a provision only saying that the price-fixing provisions were improper and should be eliminated.

They knew, as evidenced by their memorandum, and they knew as any litigant should have known, that when you

[fol. 1370] determine that an agreement was illegal and null and void, you destroy its efficacy for any purpose.

They recognize that that is so, but they seek to avoid the effect of it by drawing a distinction between the language of this case as applied to the facts of this case and the language of the Supreme Court in Bruce's Juices, by using the word "inherently," and saying that this illegality as found by this court's decree did not amount to an inherent illegality.

It is obvious from the long discussion that Mr. Rosenman made in his pinpointing of the various matters decided by the Supreme Court in both the first and second opinions, that there could not have been any other kind of illegality involved when they struck down these license agreements and held that they were illegal, null and void.

The Supreme Court said that the basic purpose of its opinion, and the basic purpose to be aimed for by the trial court when it found in favor of the plaintiff, the United States Government, in an anti-trust action was as follows: "To compel action by the conspirators"—and I am now quoting from the Supreme Court's second opinion—to compel action by the conspirators that will so far as practicable cure the ill effects of the illegal conduct and insure the public freedom from its continuance, the conspirators should be denied future benefits from their forbidden conduct, and the action is not limited to a prohibition of the proven [fol. 1371] means by which the evil was accomplished, but may range broadly through practices connected with the acts actually found to be illegal."

Now, as Mr. Rosenman pointed out, the illegality found by the Supreme Court, and pursuant to the mandate of which court this court entered its final decree, was not limited to any narrow illegality. The court found five different violations of the Sherman Anti-Trust Act which permeated the entire transaction which was effectuated through these license agreements and which therefore made any recovery in our opinion under those agreements or under those patents or for the use of those patents barred by the language of this court's final decree.

When the court stated that the agreements were illegal, null and void, they were not referring to the papers. They were referring to the transaction between the parties. The

transaction between the parties involved these patents. These patents were the modus vivendi by which they accomplished the conspiracy, combination, restraint and monopolization that the Supreme Court found in two separate opinions had occurred here, and resulted in this final decree, and it seems to me that it is inconceivable that U.S.G. can successfully argue that that language, "illegal, null and void," must have read into it a particular kind of illegality, that there must be something said that it is inherently illegal, in order to avoid the effect of the doctrine of the Bruce's Juices case, which they admit is applicable.
[fol. 1372] Now, the Supreme Court has said that one of the purposes of a decree in an anti-trust action, where a violation has been found, is to prevent the fruits of the conspiracy from being enjoyed. We are of the opinion that the main fruit of the conspiracy was the promise of U.S.G.'s licensees to pay royalties for the protection given by the price-fixing scheme. If U.S.G. were allowed to recover these royalties by these actions it has filed in Iowa, New Jersey and New York, there would be no preventative effect as a result of the decree of this court, and the language of this court to the effect that the agreements were illegal, null and void, would apparently be completely nugatory and have no effect at all.

We submit that it was not intended by this court that such a result should follow. We submit that in our opinion, the language of the decree itself is sufficient basis upon which this court should enter an order enjoining U.S.G. from further prosecuting these actions in Iowa, New Jersey and New York. We believe that the Supreme Court's opinions make it manifest and absolutely clear that U.S.G. had misused these patents to perpetuate in effect this conspiracy and combination, that the illegal conspiracy was only able to be carried out because of the use of the patents, and that that use permeated the entire transaction, and that you need say no more once you have said that the contract and the license agreement employing the use of those patents were illegal, null and void.
[fol. 1373] As the Government stated in its argument to the Supreme Court, it would be *guilding* the lily to add an injunction provision, because it would seem impossible that a defendant against whom an order had been entered hold-

ing the license agreements promulgated by it were illegal, null and void, would attempt to sue upon them. Yet that is exactly what U.S.G. has done here.

Now, if the suit, as we contend, upon the express license agreements cannot be maintained, under the doctrine of Bruce's Juices, which is clear and to which U.S.G. itself subscribes, in our opinion you cannot maintain an action for quantum meruit.

Argument on Behalf of Newark Plaster Company

By Mr. DeWitt

Mr. DeWitt: If the court please, I am Benjamin P. DeWitt, of the law firm of DeWitt, Pepper and Powell. I represent the petitioner, Newark Plaster Company.

The United States Gypsum Company has commenced an action against Newark Plaster Company in the United States District Court for the District of New Jersey. In that action, the United States Gypsum Company, to which I shall *I* refer as U.S.G., seeks to recover from Newark $185,000.

In its complaint in that action, U.S.G. alleges, in the first place, that it is entitled to recover under a certain license agreement, to which U.S.G. and Newark were parties.

In another count, it alleges that it is entitled to recover [fol. 1374] on the basis of quantum meruit, and again in other counts it alleges that it is entitled to recover on the ground that Newark has infringed U.S.G.'s patents.

I am here as a petitioner to urge upon your Honors that to permit U.S.G. to prosecute that action against Newark in the United States District Courts for the District of New Jersey is to make a mockery of this court's decree in the anti-trust litigation about which you have heard this morning.

Your Honors will find in the final decree of May 15, 1951, a list of license agreements. One of those license agreements in that list is the license agreement for the alleged breach of which U.S.G. sues Newark in this action in New Jersey. It relies upon that agreement. It proposes to tell the United States District judge in Newark, New Jersey, that that agreement is a valid, legal and enforcible agreement, and it proposes to ask that judge, if the judge finds

that an agreement has been broken, to award damages to U.S.G. This court in its final decree has said that that very agreement which U.S.G. is going to tell the judge in New Jersey is valid—this court has said that that very agreement is illegal, null and void.

Now, if anybody is going to tell the District Court in New Jersey that when this court made a decree saying that an agreement was illegal, null and void, it really meant that it was legal, valid and enforcible, it should be this court. U.S.G., itself, in its brief, supports only half-heartedly its [fol. 1375] action in New Jersey so far as it is based upon an alleged breach of this agreement.

[fol. 1376] They say in their brief that they included that only in order that the facts might be complete. It baffles me to see and to understand why, to set forth facts, it is necessary to claim as legal an agreement which this court has held to be illegal, null and void.

Now we pass to the second basis upon which U.S.G. seeks to recover $185,000 from Newark in this action in New Jersey. They say, "We are entitled to recover on the theory of quantum meruit."

What this court condemned in its decree was not a piece of paper upon which the agreement was written. What this court condemned in its decree, of course, was the transaction reflected in the license agreement, and having condemned the transaction, which was the basis of the license agreement, it follows that the court, when it said that the agreements were illegal, null and void, did so because the transactions reflected in the agreement were illegal and unlawful.

It follows, therefore, that for U.S.G. to attempt to recover in New Jersey against Newark on quantum meruit is to attempt to convince the court in New Jersey that a transaction which this court found was unlawful in fact was lawful, and will support a claim of recovery.

If in the days of prohibition a landlord leased premises for the sale of liquor contrary to the law, and the lease had been condemned, certainly he could not recover on quantum meruit, because it would have been the transaction that was [fol. 1377] condemned, and not the document which represented the lease. And so here——

Judge Cole: Would that apply if he continued to occupy the premises although the lease was condemned?

Mr. DeWitt: I should think so. I do not see how he could recover when his very act in permitting use of the premises was unlawful. Certainly that is what the Supreme Court said in Bruce's Juices. That is what Williston says in his book on contracts, and it seems to me that it is fundamentally sound. What was condemned here was the transaction, and the transaction being illegal, unlawful, I do not see how U.S.G. can properly tell the court in New Jersey that it was legal and proper.

Now, finally, U.S.G. seeks to recover against Newark in this action in New Jersey on the ground that Newark infringed the patents. That brings us to the question of the misuse of the patents, about which Your Honors have heard at some length. Certainly the record in this case indicates very clearly that the court found that there was a violation of the antitrust laws because of the misuse of patents. That was what was involved in this litigation. U.S.G., the Supreme Court found and this court found, had misused the patents, and that that misuse resulted in a violation of the antitrust laws. That is at the heart of this case. That is why the court found these license agreements illegal, null and void.

That being the case, under the authorities that have already been cited to Your Honors, for U.S.G. to attempt to recover against Newark on the theory that the patents were [fol. 1378] not misused is again to flout the decree of this court, as well as the Supreme Court, which has found that these patents were misused.

It follows, therefore, that Newark is here not as is suggested by U.S.G. to urge this court to enlarge its decree, to amend its decree, but to enforce its decree. We believe that it is intolerable that this court should make a decree holding in the plainest language that what was done by U.S.G. is unlawful and that U.S.G. should be permitted, without any action by this court, to proceed in various places throughout the country to contend exactly the opposite of what this court has found.

We are not here to try this case again. We do not have to ask ourselves here whether there has been a misuse of these patents. The Supreme Court has said that there has been a misuse of the patents. We do not have to explore here the

question of the legality of these license agreements. We had elaborate arguments before this court as to whether or not it was proper to include in the decree of this court a provision that these license agreements and every one of them was illegal, null and void. It was stoutly maintained on behalf of U.S.G. that these license agreements were not illegal, null and void, that the Supreme Court had not intended to find that they were illegal, null and void, but after hearing elaborate argument, that question was decided and is therefore no longer open.

This court, after considering the matter carefully, has found in its decree that these agreements are illegal, null and void.

[fol. 1379] Now, I do not know that it is important to discuss the purpose of including that provision in the decree. U.S.G. in its brief suggests that when the court included that provision it did not realize, and its attention had not been called to the fact, that to include that might preclude U.S.G. from collecting royalties. But that matter was brought to the attention of the court.

In the memorandum of which Your Honors have been furnished a copy, U.S.G. told the court that the memorandum which I had submitted on behalf of Newark urging the inclusion of this provision was designed to relieve Newark from accounting for royalties.

Judge Cole: Is that stated in so many words?

Mr. DeWitt: In so many words, in the memorandum of U.S.G. I will not quote it word for word; in substance.

Judge Cole: I mean, in your memorandum.

Mr. DeWitt: My memorandum urged that the court include in this decree a provision that these license agreements were illegal, null and void. U.S.G., in answering that memorandum, construed the purpose of it to be, and so stated that the purpose of my including that in my memorandum, was to relieve Newark from the liability to account. That memorandum was submitted to the court.

So the court had before it the statement of U.S.G. that the purpose of Newark and the purpose of National—for [fol. 1380] National had also submitted a memorandum in support of the conclusion of that clause—the court had before it at the time it made this decree the statement of U.S.G. that the purpose of including that provision, so far

as Newark and National were concerned, was to avoid the payment of royalties.

Now, certainly the three judges who sat on this statutory court knew what they were doing when they included in this decree a provision that these agreements were illegal, null and void, and it seems to me that we are not so much concerned with the purpose as with the effect, and the effect, as I have said, is to prevent a recovery on these agreements, to prevent a recovery on the basis of quantum meruit, and to prevent a recovery on the patents which were misused.

There are two facts with respect to Newark that are peculiar to Newark. I must admit that I do not believe that they are material here, but I feel that because of this action in Newark I should not close without mentioning them.

The first is, and I must say that I do not believe this appears in the record, and I would ask Your Honors to indulge me while I make this statement—the first is that throughout this period as to which royalties are now claimed, Newark did not use the patent on which it is sued, but used a patent covering a material known as urac. I do not wish by omitting that statement here to have any inference drawn elsewhere that we did use the patent.

[fol. 1381] Another fact is that Newark was not a party to this plan of blanketing the gypsum industry back in 1929 when the original licenses were made. At that time a company known as Kelly Plaster Board Company took out one of these licenses, and it was not until some years later that Newark Plaster Company bought the stock of Kelly Plaster Board Company, and when it bought the stock, it did so largely because one of the assets of the Kelly Plaster Board Company was this license agreement, which was considered very valuable, and before acquiring the stock and concluding the transaction the usual estoppal certificate was asked of U.S.G., namely, a certification to the effect that this agreement was a valid, subsisting agreement, and Newark Plaster Company was informed by U.S.G. that it was a valid, subsisting agreement, and later Newark made an agreement directly with U.S.G.

That may have a bearing here indirectly, in that it may be suggested that we come here having enjoyed benefits and being unwilling to pay for those benefits. I think that is utterly immaterial as to whether we enjoyed benefits or

not. I think the important thing here is that this court should uphold the integrity of its own decree, whatever benefit or detriment may happen to us or anybody else. But if we must discuss benefits, then it should appear that so far as Newark is concerned, it did not get what it thought it was getting. In fact, as it turned out, Newark really bought into a rather extensive and expensive lawsuit.

[fol. 1382] ARGUMENT OF BEHALF OF EBSARY GYPSUM COMPANY

By Mr. Rippey

Mr. Rippey: If the Court please, my name is Joseph Rippey. I represent the Ebsary Gypsum Company, which is a defendant in this action and is a petitioner here.

The complaint against the Ebsary Gypsum Company and the action against it is pending in the District Court of the United States for the Southern District of New York. The complaint in our action is similar to that in the action against the National Gypsum Company. It is also similar to the complaint in the action against Newark Plaster Company with this exception: There is in our complaint a sixth count which is for patent infringement on a patent which was not included specifically under the original license agreement.

Now, the Ebsary Gypsum Company differs in this respect also from National Gypsum Company, and in Newark it is similar, that the Ebsary Company did not take a new license agreement from the United States Gypsum Company pursuant to the decree of May 15, 1951.

Judge Cole: You say you did not?

Mr. Rippey: We did not.

Now, there is also this difference, that there are three patents involved in our complaint—they are all under the original license agreement—instead of one, which was the basic patent. Now, we have Counts 1 and 2, which are on [fol. 1383] the original license agreement.

Counts 3 and 4 are the quantum meruit counts, as stated by the counsel for the United States Gypsum Company. Counts 5 and 6 are for patent infringement.

Now, we claim that there is no question of the jurisdiction of this court. It is so stated in the decree. We claim

that the first two counts on the agreement should be dismissed, as the agreement was declared unlawful, illegal, null and void. It means exactly what it says.

[fol. 1384] The third and fourth counts, which were on implied contract, are similarly void and unenforcible, as they are based on the same transaction. There is ample authority to show that.

Counts 5 and 6, which are the infringement counts, are likewise unenforcible and are supported by ample authority.

Judge Worley: Did you say one of the patents was not involved in the decree?

Mr. Rippey: Yes. Count 6 is on a different patent than is involved in any of the other suits, with the exception of Newark. Newark has also that count in it.

Now, at the time the original license agreement was made, all possible theories of compensation for use of the patents of the United States Gypsum Company were merged in that agreement. It is one transaction. If the agreement itself fails, all other theories fail with it.

Now, there is a fact, I should like to state also, similar to Newark, and it is that we claim that we did not use the patents after the decree of this court. We also had a license agreement to use the Urac process, which has nothing to do with this case, but it was a different process.

Now, coming back to the sixth count, which is on the different patent, that actually was under the original license agreement as it is an improvement patent, and the license agreement with Ebsary, which is contained in paragraph 18 of that agreement, includes all other patents on improve-

[fol. 1385] ments, and therefore it comes under the same classification as the three basic patents which are included in count 5.

Now, since the court has declared the license agreements to be void, we contend that the agreements have no legal existence, and all theories subordinate to them, or different theories of recovery, fail in the same way. We are seeking an injunction against the United States Gypsum Company prosecuting the present suit in the Southern District of New York, and all similar suits that it might bring in the future for enforcement of any back royalties under the agreement.

Now, in the Ebsary case, the claim by the United States

Gypsum Company goes beyond the date of May 15, 1951, the date of the decree, but for the reasons stated, it is void in its entirety, and not limited there. We also submit that the question of misuse did not necessarily terminate, if at all, on that date, but it continued beyond, and it would continue until it has been affirmatively shown by the United States Gypsum Company that the effects of the misuse have been dissipated.

Judge Stone: You mean, affirmatively shown as a matter of record in this or some other court?

Mr. Rippey: In this court.

Judge Stone: Thank you.

Have you gentlemen for the petitioners any further argument to present in chief?

Mr. Knuff, for the Government, said he might want to [fol. 1386] present something.

ARGUMENT ON BEHALF OF THE UNITED STATES OF AMERICA

By Mr. Knuff

Mr. Knuff: May it please the court, my name is Edward Knuff, and since it is rather an unusual name, it is spelled "K-n-u-f-f," and all letters are pronounced.

I represent the United States of America.

By its petition dated June 30, 1953, the Government seeks an order enjoining U.S.G. from prosecuting certain claims in other Federal courts against certain of its former licensees. The Government's petition alleges that in the early part of 1953, U.S.G. instituted separate suits against four of its former licensees, that is to say, against National, Certain-teed, Newark, and Ebsary. In each of these actions, U.S.G. makes the following alternative claims:

1. Recovery of royalties allegedly due U.S.G. under certain patent license agreements, and parenthetically, I want to add that these patent license agreements were adjudged unlawful under the anti-trust laws, illegal, null and void by the decree of this court dated May 15, 1951;

2. It seeks recovery on a quantum meruit basis by reason of the defendant's use of these patents that were included in the patent license agreements; and

3. It seeks damages for infringement by reason of the unauthorized use of these patents.

[fol. 1387] The recovery for which U.S.G. seeks compensation is for the period substantially from March or April, 1948, to May 15, 1951.

By its answer to the Government's petition, U.S.G. admits that it is seeking to recover the royalties under the agreements that had been adjudged by this court to be unlawful, illegal, null and void. That appears in paragraph 4 of U.S.G.'s answer to the Government's petition.

It is the position of the Government that U.S.G. may not sue to enforce any claim based upon any license agreement adjudged by this court on May 15th to be unlawful, illegal, null and void, and that any suit to recover upon such a claim constitutes an attempt to thwart, defeat, and bypass this court's final judgment.

As set forth in our petition, the Government takes no position as to whether U.S.G.'s alternative claims for recovery on the quantum meruit basis or on the infringement counts, are barred by this court's decree of May 15th, or as to whether this court should enter an order enjoining U.S.G. from prosecuting these claims. Insofar as the quantum meruit count is concerned, and insofar as the infringement count is concerned, the Government is neutral, and I want the court to understand that any remarks I make here today are based upon that position.

The Government's petition stems from a civil action instituted in 1940 under Section 4 of the Sherman Act to enjoin the defendants from violating that Act. That 1940 com-[fol. 1388] plaint charged the defendants with conspiring to fix prices on patented gypsum board and unpatented gypsum products and otherwise to restrain and monopolize interstate trade and commerce in those products. The theory of the Government's case was that the defendants, being erstwhile competitors, were engaged in an unlawful combination and conspiracy to organize the gypsum industry under patent licenses and stabilized prices.

At the close of the Government's case, the defendants moved under rule 41(b) of the rules of civil procedure to dismiss, and the District Court granted that motion. On appeal, the Supreme Court unanimously reversed the judgment of dismissal and upheld the Government's theory of the case. The Supreme Court, in that opinion, which is contained in the 333rd volume of the United States Reports,

held that the defendants had acted in concert to restrain commerce under patent licenses in order to organize the gypsum industry and stabilize prices.

On the second appeal of this case, the Supreme Court put the matter more cryptically, when it said that price-fixing patent license agreements made in knowing concert violated the Sherman Act by their very existence.

Following the first remand, this court granted the Government's motion for summary judgment. Thereupon, both the Government and U.S.G. filed proposed findings of fact, conclusions of law, and both filed a proposed decree. The Government's proposed conclusion 14 provided that the [fol. 1389] license agreements were illegal and in violation of the Sherman Act, and in the Government's proposed judgment, in Article VII, it was provided for the cancellation of these agreements, and the second paragraph of Article VII also enjoined their further performance.

On the other hand, U.S.G.'s proposed judgment would have declared illegal only the price-fixing provisions of the patent license agreements.

At the hearing in June of 1949, on these proposals, the Government, believing that it would be extremely unlikely for the court to make findings of fact and conclusions of law, asked that its proposed judgment be amended so as to incorporate therein a provision that provided that the license agreements were unlawful under the Sherman Act and illegal, null and void.

On November 17, 1949, the court entered its judgment, and Article IV thereof provided that each of the license agreements is adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void.

Article IV of the judgment of this court entered on May 15, 1951, is identical in form with the provisions of Article IV of the judgment of November 7, 1949.

Now, from a recital of the foregoing facts, it is apparent that before this court entered its final order of November 7, 1949, it had before it U.S.G.'s suggestion that only the minimum price-fixing provisions of the license agreements [fol. 1390] be declared illegal, and also the Government's proposal that each of the license agreements be declared illegal, null and void.

The court did not adopt U.S.G.'s suggestion. Instead the

court adopted the proposal set forth by the Government, and in doing so it will be noted, the District Court was following the rule established just some time before that in the Katzinger case, which is reported in the 329th volume of the United States Reports, that the obligations to pay royalties cannot be severed from illegal price provisions of the license.

[fol. 1391] In the Katzinger case, the Supreme Court specifically held that when one part of the consideration is unenforcible because in violation of the antitrust laws, its integrated companion must go with it, and by "integrated companion," the Supreme Court was referring to the obligation to pay royalties.

Finally, then, it seems to me when this court on May 15, 1951, adjudged the license agreements to be unlawful, illegal, null and void, it took away from those agreements every shred of enforcibility. In effect, it declared those licenses legally dead. It is difficult to imagine——

Judge Cole: Out of that association, your position is that they cannot come under quantum meruit?

Mr. Knuff: If Your Honor pleases, we take no position on the quantum meruit.

Judge Cole: I understand that. But the quantum meruit claim grows out of the very association you are discussing.

Mr. Knuff: Sir, I do not want to take any position one way or the other on the quantum meruit. The Government is contending here that there can be no recovery by U.S.G. on the counts based upon the patent license agreements, and I do not want to enlarge the position that we set forth in our petition.

As I started to say, it is difficult to imagine how this court could have used clearer words to express the idea that the agreements were struck down in their entirety, and also that their enforcibility was proscribed, and it seems to me that [fol. 1392] to argue such an elementary principle further only tends to obscure the matter. Since suits have been instituted by U.S.G. on these license agreements, these suits flaunt and make a mockery out of the plain words of the final decree, and this court now should act to protect its final decree and bar those suits.

I am frank to say that it is entirely probable that in the District Court in Iowa and in the District Court in the

Southern District of New York and in the District Court of New Jersey, those courts will probably dismiss those claims that are based upon suits based upon the illegal license agreements. However, I think that the probability that this will happen does not relieve this court of the duty of protecting its own decree. Surely after years of litigation the Government should not now be compelled to go out into Iowa and file a brief amicus curiae or to seek permissive intervention or to go up into New Jersey and do the same thing up there, and then go up into New York and do the same thing in the Southern District of New York.

This court now has before it all the parties, and since they are before it, this court should now enjoin the action based upon the patent license agreements.

[fol. 1393] Now on the question of jurisdiction, that this Court has jurisdiction to grant relief requested by the Government, seems to me to be abundantly clear.

Article X of the final judgment specifically reserves jurisdiction of the Court for the purpose of enabling any of the parties to apply to this Court at any time for such orders, modifications, directions or vacations as may be necessary; one, for the construction or carrying out of the decree; and two, for the enforcement of compliance therewith.

Plainly, the Government's petition comes squarely within the above retained jurisdiction. In fact, it would be difficult to imagine a situation more within the reserved jurisdiction than that presented by the Government's petition.

Our petition, if the Court please, does not ask for relief of a different kind or relief of a different nature or relief on a different theory or principle. Certainly, we are not asking as U.S.G. alleges in its answer that the decree be enlarged, for implicit in the adjudication that the license agreements are illegal, null and void, is that the idea that suits cannot be maintained upon them.

In short, what we are asking this Court now to do is to make explicit what was implicit in Article IV.

I am certain that this Court is well aware of the inherent power of an equity court to protect its judgments and decrees. However, since the jurisdiction to entertain these [fol. 1394] claims comes so plainly within the provisions of Article X of the final judgment we deem it unnecessary

to argue the inherent power of this Court. However, as we set forth in our brief our failure to argue it should not be construed as a waiver of it.

Thank you.

Judge Stone: Are there any other counsellors for any of the petitioners who desire to be heard in the main argument? If not, the main argument will be regarded as closed. The Court will take a recess of ten minutes.

(Recess.)

Judge Stone: You gentlemen may proceed.

ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Cranston Spray, Esq.

Mr. Spray: May it please the Court, my name is Cranston Spray, from Chicago. I shall speak on behalf of U. S. Gypsum Company, along with Judge Bromley.

It would appear that there are at least four major questions before the Court in this proceeding.

In the first place, there is the question as to the jurisdiction of the Court to grant the relief prayed for by the petitioners.

In the second place, there is the question of whether or not the decree of May 15, 1951, enjoined in any way the suits which United States Gypsum Company has brought in Iowa in the Federal Court, and in New Jersey, and the Southern District of New York.

[fol. 1395] Thirdly, there is the question that if this Court has jurisdiction and sees fit to exercise it in this case, is there any basis on this record and in the law for the Court to now broaden the decree to include such an injunction against U. S. Gypsum Company, assuming that it be found that it is not in the decree as presently made?

And, fourthly, there is the question as to the extent, if any, that the doctrine of the Morton Salt case is applicable here; and, if so, we get into the various questions with respect to the application of the doctrine of purge under the facts of this case and in this proceeding.

It shall be my purpose to deal with the first two questions which I have mentioned, that is, with respect to the jurisdiction of the Court, and to consider the question whether the

decree of May 15, 1951, in any way enjoins U. S. Gypsum from suing for compensation for the use of its patents during this period involved.

Before discussing these specific questions, however, it would seem that it might be helpful to give a brief statement as to the present litigation and litigation history of this case, all as appears from the record in the case.

In this respect, I shall be touching possibly on some matters referred to by Judge Rosenman this morning, but I shall endeavor to keep duplication at a minimum, I assure you.

About four years ago U. S. Gypsum Company made a [fol. 1396] very significant development in the gypsum board industry.

The Court is familiar with the product "Gypsum Wallboard," samples of which have been handed up to you this morning.

The thing that I think possibly is not quite clear is that the finished product of wallboard, for example, would be a large sheet, maybe 4 feet by 8 feet.

The lathe would be in smaller pieces which would be nailed on the studs as the base for plaster.

In the old method of making gypsum board, back in this period prior to 40 years ago, the gypsum slurry would be poured on these paper liners, and then the product run through the rollers. And after it had set the edge would be trimmed and the boards sent out to the market with all four edges exposed.

The result was breakage in transit, cracking and breakage as they tried to apply the product to the studs, and the result was a great headache in the industry.

U. S. Gypsum put one of its employees, a man named Utzman, to work on this problem. And he came up with that solution in the closed edge board, whereby one of the paper liners was extended out, folded over, tucked in under the other liner, so that you had on the two edges a closed edge. And that was really the solution to that difficulty.

It was, of course, a product patent. And there were also patents relating to the machinery for making it.

The closed edge board was quickly accepted by the trade, [fol. 1397] and by U. S. Gypsum's competitors who immediately commenced to infringe it. And practically the whole life of this patent was involved in bitter patent liti-

gation with respect to the infringement of U. S. Gypsum's patent by competitors.

Judge Worley: When was that issued?

Mr. Spray: That was issued on August 6, 1912, and expired, of course, 17 years later on August 6, 1929.

U.S.G.'s rights in this patent were ultimately established, and the litigation was settled by a group of settlement agreements, and by the granting of licenses to the infringing competitors and to others in the industry. I shall not go into the detail of that, other than to state that the settlement in each case was exactly on the terms which had originally been laid down by U. S. Gypsum Company, and that was, that everyone must pay for past infringement, that royalty must be paid for the privilege of using the patent, that there should be a reservation in the licensor of the right to fix the minimum price at which the licensee might sell the patented product which was manufactured and sold under the license.

I think it is of interest to mention that at the time the Beaver board settlement was made, that is the settlement between U. S. Gypsum and Beaver Products Company, its largest competitor at that time, in July, 1926, there was pending in the United States Supreme Court an appeal in which the question was being determined as to the legality [fol. 1398] of a minimum price reservation contained in a license which General Electric had granted to Westinghouse.

So that in this license agreement which U. S. Gypsum made it did not try to fix the price at which the patented product was to be made, but it merely reserved the right to fix prices, if it should so elect. And, consequently, we awaited until the outcome of the General Electric decision, which came down in December of 1926, and which was the same as General Electric decision reported in 272 U.S. at page 476.

The essence of it was that since a patentee had a monopoly in the particular field and could charge any price he wanted to for his product, if he chose to share that monopoly with a competitor or with others, it was reasonable, certainly, that he should do it upon condition that the licensee should not sell at any price below the price he fixed as the minimum price for the patented product.

When that doctrine was handed down—and it was not a

new doctrine—it was merely a reaffirmance of a doctrine that had been laid down in 1902 in the Bement case, in 186 U.S.—when that doctrine had been reaffirmed, I should say, by the Supreme Court, then U. S. Gypsum Company exercised its right to fix the minimum price at which its licensees might sell the patented board, manufactured and sold under the license.

As I said, the Utzman patent expired back in 1929, but over a period of years there were other fundamental and [fol. 1399] important developments in gypsum board and patents issued with respect thereto.

For example, there were the starch patents which had solved an old problem in the gypsum industry known as the peeler problem. The peeler problem was that if the bond between these paper liners and the core should be destroyed, then you could just peel that piece of paper that you find is firmly bound in the samples which were handed you, at least, they should be, and I hope so——

Mr. DeWitt: They are U. S. Gypsum.

Mr. Spray: Then they are firmly bound. If that bond was destroyed then you could just peel the paper off. And, of course, the product was useless for the purpose for which it was sold.

With the increase in the speeds of manufacture, and with the increased heat which was used in the drying kiln, that problem was greatly accentuated. And the peeler problem was really a serious one. But it was discovered through these starch patents that by the injection of the starch in the gypsum flurry, the starch apparently followed the little particles of gypsum down into the interstices of the paper and protected them against that heat long enough for the heat not to destroy the bond. And so that was a very important and most important patent which everyone had to use in the modern day fast development and manufacture of gypsum board.

Those are the two patents which National in its brief says show that we were the same as a patent polling arrangement [fol. 1400] in Hartford Empire, where they had some several hundred patents in which they got from Wright and left in every place that they could get and monopolized the industry. They say that we acquired those two patents from

National in order to effectuate the price fixing under the license.

[fol. 1401] As a matter of fact, the record shows very distinctly, without any question here, that in 1929 U. S. G. was accused by Universal, the owner of those patents, of violating them. An examination found that we were violating them and unless we could do something about it we were open to very substantial damages. And the patents were, therefore acquired. And for that reason acquired. And that is in the proffer of proof. Certainly an underlying fact which must be accepted as true.

So that was the only acquisition of patents that was involved here. It was on a very major one which we were using and had to acquire for U. S. Gypsum's own protection.

There was another important patent development and that was in what is known as the foam or bubble patent. In this gypsum slurry something had to be added to the gypsum in order to give it more flexibility, otherwise as the gypsum core set it was so brittle that in nailing and sawing it, it would split and chip off. And for years what had been used for that was the addition of a small amount of sawdust in the gypsum core. That presented its problems for several reasons.

In the first place, it was difficult to get enough sawdust as this product became a major product in the construction industry.

In the second place, sawdust would have different chemical qualities. And in the manufacture of board you ran into problems because of the different chemical qualities [fol. 1402] in the different sawdust that you might be using from time to time during the week or even during the day.

And so something had to be done to try to solve that problem. That solution came in what is known as the foam or bubble patents which involved the injection into the gypsum slurry of foam which formed a great mass of infinitesimal bubbles throughout the gypsum core, and that supplied the need which sawdust had formerly furnished. And it gave the board sufficient flexibility. And it also materially lightened the weight of the board, which made great savings in freight shipments.

In the fall of 1929, when these bubble patents were not issued as yet, but were in the application form, there were new licenses entered into between U. S. Gypsum and the other manufacturers of gypsum board. In those new licenses all of the old patents of the first licenses which were still outstanding were included.

There were also included the starch patents. And there was also included the application for patents on this foam or bubble board.

The application actually under the foam or bubble patent that was issued was first on October 8, 1935. That was the Roos patent, No. 2017022, which is the one with which we are quite concerned here. It is the patent on which suit has been brought against National and Certain-teed out in [fol. 1403] the Federal Court in Iowa.

I think it is important, and I would like to mention this because of Judge Stone's question this morning about this being merely an improvement patent when Judge Rosenman was speaking of the Utzman patent. I think that I could refer to just two or three of the proffered proof. There were a number of them with respect to these patents.

I only want to take time to read a few as to which I think there could be little question about there being underlying facts.

Proffer of proof 5 was that at all times from 1912 to date, the sole interest of the licensor in enforcing its patent rights by litigation in the settlement of its patent litigation, in the offering and issuance of its patent license agreements, and in the enforcement thereof, was to secure to itself the full benefits of its patents and not to enter into a plan or scheme to stabilize the gypsum industry.

The companies which became licensees did so because they desired to settle or avoid litigation and to obtain the right to use U. S. G.'s patents, considering it a business necessity to be able to do so.

And findings of fact 61 and 62, which were that the principal patents of U. S. G. under which license agreements were issued were basic patents and of such scope as to have great commercial value.

[fol. 1404] It was essential that each manufacturer of gypsum board should have the right to use said patents in order to be competitive with those who had those rights.

The license agreements hereinbefore referred to were negotiated at arm's length and were bona fide agreements entered into in good faith and intended to bind each party thereto to the promises made therein. They were not sham agreements executed to effectuate any purpose or objective not expressly set forth in the agreements.

There are, of course, other proffers of proof about the license agreements being independently entered into, and that they were not granted on any condition that anybody else in the industry should or would take a similar license.

As I have stated, for a period of years U. S. G. operated under these licenses and exercised its right to fix the minimum price at which the licensee might sell the patented board manufactured by it.

I think I might just pause here to point out that neither the license nor the minimum price bulletins which were issued under them at any time attempted to fix a minimum price on the basis of a process patent. I am sure there are a good many lawyers that would argue that that was perfectly a legal basis for minimum price fixing and patent licenses, but in this instance the exercise of the right both as given in the license agreement itself and in the minimum [fol. 1405] price bulletin was limited to product patents, was limited to the fixing of prices of the patented product itself covered by a product patent. And as I have indicated, by fundamental product patents.

I shall have occasion later to go into that. I did not mean to get into it in this brief statement of the facts, but there were statements made this morning by Judge Rosenman about this price fixing under the license agreements which, as I understood, would not certainly be accurate, as he spoke of the license bulletins being used to fix the price of gypsum products all over the country or in the eastern part of the country.

Well, of course, they were always limited by their language and operation to patented board and not to gypsum products generally, as I shall later develop.

Furthermore, they did not establish, as was indicated, the delivered pricing or the pricing method in the gypsum industry. All they did was to apply the then existing method of pricing in the bulletins, but that method of pricing was not created by this license bulletin at all.

It is true they were complicated, but I think it has been the experience of everyone that when you undertake to fix a minimum price it has a lot of angles and details to it.

I have had the occasion, and Judge Stephens, in his opinion, goes quite fully into the General Electric minimum price bulletins, and I am sure that the bulletins issued in [fol. 1406] that case which were approved by the Supreme Court were fully as complex, if not more so, than the bulletins issued under the U. S. Gypsum patent licenses.

We have found when the Government tries to fix price by the maximum price in the OPA or prices under the bituminous coal code, that the price bulletins get rather voluminous, as anyone here who has had experience with that will vouch for.

In 1940 there was a grand jury investigation in this industry. The records of all of the manufacturers were subpoenaed to Washington. Witnesses were brought here. And the industry was confronted with a typical package in those days, two criminal indictments and a civil suit.

The first criminal case came on in 1941 and was tried here in Washington in the fall, October, to November, 1941, before Judge Alan Goldsborough, and at the conclusion of the Government's case, after five or six weeks of trial, the Judge directed a verdict for all defendants. That disposed of the first criminal case with which we were confronted.

And then the second criminal case was nolle prossed by the Government, which left us with the civil suit that was tried back in 1943.

There had been a special statutory court appointed for the trial of this case. Trial commenced on November 15, 1943. And with a few short recesses, the Government took from that time until April 20, 1944, to present its case. [fol. 1407] At the conclusion of that case, the defendants —and by that I mean U. S. Gypsum Company and the defendant petitioners who are here, and they heard some of the statements in chief of the petitioners' case. It almost seemed as if this was the suit against U. S. Gypsum Company—it was against all of these defendant companies—and they were all charged with violation of the Sherman Act—at the conclusion of the Government's case we felt, we all felt that the Government had failed to sustain the claim, to make any ground for relief under Rule 41(b),

either on the law or on the facts, that it had shown no right to relief.

And so we moved for a dismissal at that time of the Government's case.

It may be that we made a mistake in that motion. Certainly by doing it we had no idea we were going to forever pass up our chance to put in our evidence in this case. The rule seemed quite specific on the point. And it had been drawn so as to make it clear that upon the denial of the motion, the defendant should be entitled to go ahead with his evidence. There being some difference, as the Court will know, at that time in the various state jurisdictions as to the effect of a motion to dismiss in a civil case at the end of the plaintiff's case. But the rule seemed clear. But the fact remains that we made our motion. It was granted. We were never able after that time to introduce our evi- [fol. 1408] dence other than by this proffer of proof which we feel, and I will later argue, the Court very certainly, acting as it did in this case, did just what it said, and that was to accept the truth of the underlying facts set forth in our proffer.

It was upon the approval or the granting of our motion for summary judgment that Judge Stephens rendered his exhaustive opinion that is reported in 67 Fed. Supplement, at page 397, an opinion which was joined in by Justice Garrett and Justice Jackson, who were sitting with him on that Court.

There was an appeal by the Government to the Supreme Court, and I shall have occasion certainly later to go into that opinion, reversing the decision in this case. Suffice it here to say that the judgment of dismissal was reversed on the ground that the plaintiff had shown a prima facie case and under the rule we should not have had a dismissal.

We then came back before this Court and found there were disagreements as to the meaning of the Supreme Court's opinion, and I might venture a guess that wherever lawyers meet in the future, there may still be some points of argument about the meaning of the opinion here and there. But as a result of a preliminary hearing which was held in November, November 8, 1948, it was suggested that a motion for summary judgment be filed to express the views

that the Government had informally expressed and that the defendants filed their proffered proof. This was done. [fol. 1409] There was argument before this Court on June 29, 1948. And in a 2 to 1 decision, the Government's motion for a summary judgment was granted, Judge Stephens dissenting.

I will develop that later.

I think it is reasonably clear that the basis of that decision was that the majority of the court construed the Supreme Court's opinion as meaning that a plurality of licenses with price fixing throughout an industry adhered to by the parties with knowledge of the adherence of the others constituted a concerted action in violation of the Sherman Act.

Following the court ruling on the motion, the Government was given a period of time, 120 days, I believe, for the preparation and submission of a decree. On July 30th of that year, 1948, the Government came before the court for a temporary restraining order which the court denied as unnecessary, but without prejudice to make it later, and the Government then filed with the court in November of 1948 its proposed findings of fact, conclusions of law, and decree which was obviously based upon the theory that the Government had proved everything averred in the complaint, whereas, as we contended, and by not only U. S. Gypsum but all of the defendants who are now defendant petitioners here, that the ruling of necessity must be a narrow adjudication and could not possibly have been an adjudication with respect to the various charges which were at issue by reason of the answers of the parties and [fol. 1410] the proffered proof.

Certainly, without a hearing. Accordingly, in May of 1949, we filed, as has been suggested this morning, and by we I mean U. S. Gypsum—a memorandum in opposition to those proposed findings, conclusions, and decree and make suggested findings of our own, if any were deemed necessary and submitted a form of decree which we felt covered actually the adjudication which the court had made.

The other defendants, such as National, Certain-teed, Ebsary, also filed memoranda in which they joined heartily with us and unequivocally with us in our objections to the Government's findings and conclusions and as being far

outside of the scope of the adjudication, and concurred actually in the decree which we had submitted, except only with respect to the provision for cancellation of the old licenses and the granting of new license agreements.

There was also a two-day argument before this Court with respect to the form of the decree and the objection to it that had been made by all of the parties, and I shall have occasion later to speak with greater detail as to some of the positions presented at that oral argument.

Suffice it to say at this point that the defendant petitioners concurred with U. S. Gypsum's objection to the scope of the findings and decree, and joined with us in our contention that the adjudication by the very posture in [fol. 1411] which the judgment was taken must have been a narrow adjudication.

On November 9, 1949, this court entered its first decree which is for convenience in the U. S. Gypsum brief as pending. That decree contained a preliminary statement and ten articles.

The preliminary statement referring to the court's understanding that the Supreme Court in its first opinion had determined that the defendants had acted in concert to restrain trade in the Gypsum Board industry and had monopolized trade in that industry in the eastern territory, and then proceeded by article 3 to make an adjudication of Sherman Act violation in this language:

> "The defendant companies have acted in concert in restraint of trade and commerce among the several States in the eastern territory of the United States to fix, maintain, and control the prices of gypsum board, and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Act."

Article 2 listed the various license agreements outstanding.

Article 4 declared each of them unlawful under the antitrust laws and illegal, null and void.

I shall come back to that clause in a later discussion of whether or not this decree contains any language which could possibly be considered as an injunction against the [fol. 1412] suits which U. S. Gypsum has brought.

I probably should have mentioned that in the course of the argument before the court as to the form of decree, U. S. Gypsum had made several tenders of license agreements which it proposed be entered into in lieu of the old agreements. And these we believe did eliminate all of the provisions of the old agreements which were really considered objectionable, apparently, by the Supreme Court.

There had been several revisions to meet some of the suggestions that the licensees had made, such as they wanted it broken down so they would have different patents in different agreements, and a few other suggestions like that.

Our last form of license agreement that we had submitted was not only submitted to the other licensees, but filed with this court on July 23, 1949.

And when the court issued its decree of November 7, 1949, it expressly approved these forms of license agreements which it ordered filed with the court as of that date. So that we did have an approved form of license agreement in the form which U. S. Gypsum had filed the preceding July.

Needless to say, U. S. Gypsum did not like this decree of November 7, 1949, because it felt that it had improperly rendered judgment against it, but it nevertheless had determined to accept the decree.

Then it was ascertained that the Government was dissatis- [fol. 1413] fied with the decree and was intending to appeal. And U. S. Gypsum felt that if the Government were to appeal, then we would be in a very disadvantageous position if we should resist further relief before the court, admitting that judgment were properly rendered against us below, and that we were really compelled to appeal to assert what we thought was error in the granting or in the adjudication of law violation.

So that U. S. Gypsum also appealed. And the two appeals went up in the spring of 1950. A word has been said about the stay order. The decree was effective November 7, 1949. Both appeals were filed January 6, 1950.

I have not recently looked at the record, but I think it must be reasonably clear that the Government did not seek a stay of the decree. The stay order was in connection with

U. S. Gypsum's decree. I think it was for the period of U. S. Gypsum's appeal.

The end of that appeal came sooner than we anticipated, because on May 29th, 1950, the Supreme Court by order dismissed U. S. Gypsum's appeal. And at that time entered a restraining order against all of the defendant companies from performing any of the provisions of any outstanding license agreements and from fixing the price of gypsum board by license agreements or other concerted action.

On November 27, 1950, the Supreme Court rendered its second opinion in connection with the Government's ap- [fol. 1414] peal. Well, of necessity, later I will come back with probably greater detail on some of the points in that opinion, but I would like at this point to say that in that opinion the court first reviewed the procedure in the granting of the motion for summary judgment and the reasons for its affirmance of the adjudication of violation of the Sherman Act and the reasons for its dismissal of U. S. Gypsum's appeal.

The court accepted as it expressly stated the District Court's decision as an adjudication of Sherman Act violation, accepting as true the underlying facts of the defendants' proffer of proof and accepting the trial judge's understanding that summary judgment—and I am quoting—"limited to that one undisputed question of violation by concerted action of the defendants in the fixing of prices of gypsum board."

I should have stated that on May 29, 1950, the Supreme Court not only dismissed the U. S. Gypsum's appeal, but it also entered an order in which it expressly affirmed the adjudication of Sherman Act violation in exactly the language of Article 3 of this November 7, 1949, decree.

The Supreme Court in its second opinion then reviewed the provisions of the decree and rejected some of the Government's contention, but granted a number of the Government's contentions with respect to enlarging the provisions.

Judge Cole: Of the November decree?

Mr. Spray: Of the November decree, yes, sir, but I do [fol. 1415] think that it is significant that in ordering some enlargement of that decree the court expressly said that it

was doing so, and I am quoting, "On the assumption that only a violation through concerted industry license agreements has been proved, but recognizing as is conceded by the defendants, that relief to be effective must go beyond the narrow limits of the proven violation."

So that it was not an enlargement of the adjudication of law violation, but merely on an enlargement of some of the relief which the Government wanted which they felt must go beyond the narrow limits of the proven violation to be fully effective.

On May 15, 1951, this decree which we are considering today was entered by this court, but prior to that and after remand from the Supreme Court in its second decision, we found there were three or four forms of decree filed with the court.

The Government filed its form. The defendant National filed a form of decree.

Defendant Certain-teed filed a form of decree.

Defendant U. S. Gypsum Company filed a form of decree.

So that the court had four forms of decree to consider. It was felt that at that point it was about time we sat down and negotiated and found a decree that seemed satisfactory to all of us and seemed a decree that we could hand to the court and say, "This meets the requirements of the [fol. 1416] Supreme Court second decision," and that was done.

Such a form of decree was prepared and was presented and considered by the court. That was done on May 15, 1951. And before signing the decree, the hearing was before Judge Stephens and Judge Garrett and Judge Jackson, and all of the defendants and the Government were specifically questioned as to whether or not they were satisfied with this decree, that its provisions were agreeable to them as to form, and each one in turn arose and said that they agreed to it and it was satisfactory to them.

I shall, of course, discuss that decree later, but I would like at this point to turn just a moment to refer to some changes in the operations under these old license agreements. As I stated after the General Electric case, U. S. Gypsum did exercise its reserved right to fix the minimum price at which the patented product might be sold. But on July 8, 1941, U. S. Gypsum canceled and withdrew all of

its minimum price bulletins, and there were never any bulletins issued after that date. So that I am somewhat surprised at the statement this morning that this decree of May 15, 1951, had the effect of freeing the industry from this strait-jacket which it had been in by reason of the minimum prices and the price provisions issued under those bulletins.

When the decree of May 15, 1951, was entered, there had not been a minimum price bulletin in effect for almost ten [fol. 1417] years, just short of a couple of months of that. That cancellation, withdrawal, was because of the expiration of the last of these Starch patents on July 8, 1941.

And we knew that everyone that was using the Starch patent, we thought were using the Roos patent, but in view of any possible doubt on that score, we withdrew all of the minimum price bulletins and canceled them, and they were not issued again.

[fol. 1418] Although there was no price fixing under these licenses since July 8, 1941, the parties continued to operate under the license agreements. The licensees used the patents. They made their monthly reports. They paid their royalties. U.S.G. exercised its rights to check on the royalty payments and the royalty reports. And to correct something that seemed not quite correct this morning about the new license agreement, meaning that we could no longer go in and look at their books, well, under the old license agreements we had the right to have a representative look at the books but any licensee could have prevented us from looking at the books by merely exercising a right that was in the license agreement to have it done by a certified public accountant, agreed to by the parties. So that that was not quite as significant a change as indicated in referring to the new licenses which were issuable under the May 15, 1951, decree.

Judge Cole: Looking at the books, and so forth, during the three-year period, was that?

Mr. Spray: I am just coming to that.

No, I am saying that that clause was in the old license agreement.

Judge Cole: I appreciate that.

Mr. Spray: Now I have just mentioned that we operated under those old license agreements. The royalty was paid.

We exercised our rights. All parties continued after this [fol. 1419] July 8, 1941 date, when the minimum price bulletins were issued. That is coming to your question, Your Honor.

On March 8, 1948, when the Supreme Court rendered its first decision reversing Judge Stephens and his colleagues in their order of dismissal, it came as quite a shock to the old industry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.

The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.

U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status quo during that period there as far as taking any action. No action was taken by us to enforce them. And that is why, in answer to your question, I wanted to postpone it to explain that situation. And that was that no effort was made to audit the books, no royalties were paid during this three-year period that is involved in this litigation out in Iowa, and New Jersey, and New York.

Nevertheless there was one thing that continued, and this is the basis of these suits, that was, that the old licensees, the petitioners in this case did continue to use our patents although they ceased paying royalties for the use or paying any compensation for the use. They continued to use them.

Judge Worley: When did that period start?

[fol. 1420] Mr. Spray: May 8, 1948, was when the first opinion came down.

In the ordinary course of events, on March 20 of 1948, the reports would have been due for the February royalty, for the royalty on board manufactured and sold in February of 1948. National and Newark, for example, stopped paying, did not report for February. I think Ebsary paid one more month and then stopped. And Certain-teed a month after that and stopped. But it was all right in that period, the royalty for February of 1948, up through in the case of Certain-teed, April, 1948, that they stopped paying royalty and did not pay from that time on until, in

the case of National and Certain-teed, they took their new licenses and then they did pay from May 15, 1951, on.

Judge Worley: Did you say Certain-teed only?

Mr. Spray: National and Certain-teed. But not Newark or Ebsary.

Judge Worley: I believe on dates, if you will pardon me, in Appendix A of your brief you have 1953. Is that a typographical error?

Mr. Spray: I thought that was corrected in all of them. We caught that after the printing. We certainly intended that every brief that went out had that changed to 1951. It is a typographical error. I am chagrined to say that there are maybe half a dozen others that we have discovered which I think before this hearing is over I will like to hand [fol. 1421] up an errata sheet that would correct that, so that you may make that correction.

Judge Stone: That may be done.

Mr. Spray: As I have spoken of the May 15, 1951, decree, immediately when that was entered, U.S. Gypsum communicated with its various licensees, those who were the licensees under the old arrangement and its co-defendants in this case, and expressed a willingness to act promptly on any application they might care to make for a license, indicating that we recognized we had not been paid for some of the past use. National and Certain-teed made application for a new license. And we had a question there as to whether we should try at that point to collect this past royalty.

[fol. 1422] Judge Stone: May I interrupt you? What do you mean by indicating at that point that you had not been paid for the past use?

Mr. Spray: We pointed out that they understood of course that they had not been paying for the use of our patents during the past few years, and that we were standing on our right to collect compensation.

Judge Stone: You called attention to that?

Mr. Spray: That is correct. When these applications came in we were faced with the question at that point, but the decree said that if an application was made we should grant a license on reasonable royalty. It was concluded not to confuse that issue at that point, but to make an offer of the license which we would enter into and state the royalty. But in so doing, in sending the form of license agreement to

National and to Certain-teed we had a couple of changes to work out, some details, and in signing up and sending the signed agreement to them, for them to sign and send back to us, in each case we expressly said that this was without prejudice to our right to receive compensation for the use of our patent that they had made in the past and not compensated us for. That was in every communications sent to these two prospective licensees. And then when they each made a royalty payment, the first royalty payment under this new license, we sent a letter of acknowledgment to both of them in which we said, "You understand, of course, [fol. 1423] from our past exchange of correspondence, that this is without prejudice to our claim for compensation for any use which you may have made of any of our patents and not compensated us for it." So that that was done in 1951 as these new license agreements were entered into.

Time passed, and U.S.G. was faced with the problem of taking action or losing compensation completely for the use of these patents during this period.

Judge Cole: Was there any reply to that letter that you just referred to?

Mr. Spray: No reply, no, sir, other than, for example, where we signed the agreement and sent it to them for their signature, it was signed by them and sent back and just a letter of transmittal. Nothing was said about the matter of compensation. But I think it is clear. It certainly is in our sworn answer that is filed to all of these defendants' petitions that throughout the whole period, not only this period I am speaking about, but in the 3-year period, all of these defendant petitioners were on notice that we expected to be paid for the use that they were making of our patents.

The statute of limitations was running and in order to avoid the bar of that statute we decided that we would have to bring suit for this money, if we expected to collect it. So suit was brought last January 28th against National in the U. S. District Court for the Northern District of Iowa. [fol. 1424] Within a couple of months a suit was brought against Certain-teed in that same jurisdiction.

National, Certain-teed and U. S. Gypsum all had and have had for many years gypsum board plants in that district and we all had a good idea of how they had been making their board and were making their board then. It was cer-

tainly an appropriate jurisdiction in which to bring suit, particularly if we got to the question of this infringement claim. We were right there where they were actually making the board.

Judge Cole: You are speaking of Iowa?

Mr. Spray: Yes, sir.

Subsequently, we brought suit against Newark which is located in New Jersey, and against Ebsary which is a New York corporation, and that was brought in New York.

Copies of the pleadings filed in that court have been submitted to this court, not only the complaints which were filed, but the answers which have been filed to those complaints. At the suggestion of this court when we were here on a preliminary hearing last June 9th, I think all of those papers have been lodged with this court. And from that it will appear that issues have been joined in the Iowa court, although for the time being there is a stay of proceedings there and the matter is held in status quo in the Newark and Ebsary cases by means of merely stipulating an extension of time for answering until a disposition of the matter in this court.

[fol. 1425] I feel from some of the explanations of the counts which I heard this morning I should like to just explain a bit about the theory of these counts.

Judge Stone: May I interrupt you?

Mr. Spray: Yes.

Judge Stone: Let me suggest that before you go into that different subject for discussion, being so near the time of our recess for the day, that we had better do that, so that your argument under that heading may be consistent and complete.

Mr. Spray: Thank you, sir. Very well.

Judge Stone: The court will take a recess until 10:00 o'clock tomorrow morning.

(Whereupon, at 4:30 o'clock p.m., a recess was taken until 10:00 o'clock a.m., Wednesday, January 13, 1954.)

[fol. 1426] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three-Judge Statutory Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plantiff,

v.

UNITED STATES GYPSUM COMPANY, et al, Defendants.

REPORTER'S TRANSCRIPT OF HEARING ON PETITIONS OF NATIONAL, ET AL.—January 13, 1954

Court Room No. 19, Sixth Floor,
United States Court House,
Washington, D. C.,
Tuesday, January 13, 1954

The above-entitled cause came on for further oral argument on petitions of National Gypsum Company, Certainteed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company, at 10:00 a.m., pursuant to recess before Honorable Kimbrough Stone, Honorable William P. Cole, Jr., and Honorable Eugene Worley, sitting as the District Court of the United States for the District of Columbia.

APPEARANCES:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., and Lawrence Gochberg, Esq., Trial Attorneys, on behalf of the United States of America.
[fol. 1427] Cranston Spray, Esq., Bruce Bromley, Esq., Robert C. Keck, Esq., Hugh Lynch, Jr., Esq., John E. MacLeish, Esq., and Arthur A. Olson, Esq., on behalf of United States Gypsum Company.

Seymour Krieger, Esq., Samuel I. Rosenman, Esq., Elmer E. Finck, Esq., and Seymour D. Lewis, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., Herbert W. Hirsh, Esq., C. Roger Nelson, Esq., Donald H. Clausen, Esq., and Franklin M.

Schultz, Esq., on behalf of Certain-teed Products Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., on behalf of Newark Plaster Company.

[fol. 1428] ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY—Continued

By Mr. Spray

Mr. Spray: Thank you. I was certainly trying to.

At the close of the session yesterday, I was about to speak of the count up in the Iowa suit, but before going to that I would like to make some supplementation to the answer which I gave Judge Cole with respect to whether or not there had ever been any reply by any of the defendant petitioners to U. S. Gypsum's letters during the summer of 1951, saying that in furnishing this license and in accepting royalties we are not waiving our claim we have against you for past use.

In answer to that question I gave to the best of my recollection that nothing had been said other than there would be a normal letter of transmittal returning the license.

Just to be sure of that, I checked with my office last night and I find that that is correct as far as National is concerned. I need some addition, however, with respect to Certain-teed.

On July 31, 1951, the U. S. Gypsum Company had replied to Certain-teed's request for a license, sending a form of license, suggesting the royalty rates, and in that letter there was this paragraph which I spoke of yesterday. [fol. 1429] There was negotiation between the parties and finally the license agreement was worked out satisfactorily. And on November 9, 1951, U. S. Gypsum sent this signed copy of the license to Certain-teed for its signature. And in that letter it stated:

> "As we said to you in our letter of July 31, you understand that nothing in the proposed license agreement shall give you any of our patent rights beyond

the rights therein granted. Furthermore, it is understood that nothing contained in said license agreements or done in this connection shall be construed as a waiver or release by us of any claim we may have against you for any use you may have made of any of the claims of U. S. Letter Patent No. 2017022, or one of any of our other patents therein expressly licensed prior to the effective date of the license, or for any use you may have heretofore made of the claims of any of our other letters patent or patent rights."

You will recall the effective date of the license was the May 15, 1951, date.

In reply to that letter Certain-teed returned the license agreements signed.

Judge Worley: That was dated in July, you say?

Mr. Spray: The first letter sending the form of license was July 31.

[fol. 1430] Judge Worley: Of 1951?

Mr. Spray: 1951. Then we had the negotiations to work out the terms. And this letter which I just referred to was November 9, 1951, when we finally signed it in the agreed upon form and sent it to them.

In reply to U. S. Gypsum's letter of November 9, 1951, Certain-teed sent back the signed license and they did say this as their closing paragraph, in reply to that paragraph which I just read:

"Referring to the comments in the last paragraph of your letter of November 9, 1951, it is understood that our execution of the enclosed license agreements and the letter of clarification does not constitute or imply nor shall it be construed as recognition or acceptance of the existence or validity of any claim which you may assert against us by reason of our claimed use of any of your patents licensed to us in said license agreements prior to the effective date thereof or for any claimed use of other letters patent or patent rights belonging to you."

So they did have in that letter a clause which merely was to protect them against our claiming that the acceptance of the license was an acknowledgment of the claim, but

there, of course, is nothing in it indicating we were enjoined against suing them or indicating any surprise at the sug- [fol. 1431] gestion that we were making the claim.

On December 31, Certain-teed sent their first royalty under this license covering the period from May 15, 1951, to November 30, 1951. And when U.S.G. acknowledged the receipt of that royalty, it added a paragraph again that "this receipt, of course, is without prejudice," with that usual language.

We had no reply from Certain-teed to that letter.

I just wanted to supplement it so that I would have a completely accurate answer to Your Honor's question.

It does make it rather difficult to understand the allegation however, in paragraph 10 of Certain-teed's petition filed herein where they tell of these negotiations and say that "on November 9, 1951, pursuant to the final decree they entered into this agreement with U.S.G.," and then they have this language, "No reference was made in said new agreement to any past due royalties and no claim was made by U.S.G. in the negotiations of the new license agreement. Payments of royalties under the new license agreement were accepted by U.S.G. without any reservation of rights or claims to said past due royalties."

With respect to the suits in Iowa, those *are,* as Your Honors know contain five counts. The first count was certainly a count on the license agreement for royalties due under that, although the full claim for royalties possibly was not made because we were only suing for damages and for royalties on the board which actually involved the use [fol. 1432] of this patent number 2017022 that was referred to in this correspondence.

Count 2, I think, could also be said to be on the contract because it does set up the contract, but it avers a modification of it which we think the parties made.

And Count 3, however, is the quantum meruit count and Article IV, too, I believe is quantum meruit. That does not proceed on the contract at all, but on the factual proposition that after the first Supreme Court decision, the licensees repudiated the contract. U.S.G. acquiesced in the repudiation, and the contract was rescinded, but the parties went ahead and used the patents, I mean, the

licensees went ahead and used the patents under terms from which the law would imply a promise to pay.

Count 5 is, of course, the infringement count.

I was startled to hear the statement yesterday that the first four counts were based on the contract. I think a reading of it will show that that is inaccurate.

It also makes quite irrelevant, I think, the argument on quantum meruit which we heard yesterday. And the constant reference to Bruce's Juices and the doctrine laid down in that court about no recovery on quantum meruit.

I hope that the court will have the opportunity to study the Bruce's Juices case. We rely on it in our brief. It does not lay down any doctrine of no recovery on quantum meruit. It was a suit under a contract or for goods sold [fol. 1433] under a contract, and the court denied the defense that the goods were sold in violation of the Robinson-Patman Act, because discriminatory sales had been made to the defendant's competitors. The court denied that defense. And in the course of the opinion was speaking about recovery on those contracts, where it did say and referred to the old Horn book log that if you have an illegal contract you just cannot put the contract to one side and sue in quantum meruit for the same thing that was covered by the contract.

As I have pointed out in the Iowa suit, Count 3, that I mentioned, for example, does not proceed on this contract at all, but rather on a rescission of it. And we are dealing about a period which is subsequent to the date of that contract and a period in which the use of the patents was at a time when there was no outstanding contract that anybody could possibly say was illegal.

Judge Cole: I understand the quantum meruit count makes no reference whatever to the contract.

Mr. Spray: None whatsoever, no. Pardon me, it refers to it, but says that it was rescinded by acts of the parties and at a date prior to the date that we are claiming for. It makes that much reference to it, but the claim is not based at all upon the contract, but rather for the reasonable value of the use of the patent.

Coming into the consideration of the specific points which [fol. 1434] have been assigned to me, I would like to restate at the outset that neither U. S. Gypsum Company nor its

attorneys would knowingly take any action in violation of an order of this court. It is certainly our intention to comply strictly with every order of this court. And we feel confident that we have not violated it in the bringing of these suits in Iowa and elsewhere; and that this court upon full consideration will conclude that that action was not flouting this decree of this court.

Furthermore, I would like to make it perfectly clear that in raising the jurisdictional question, U. S. Gypsum has no hesitancy or hesitation in presenting this matter to this court. We just felt that there were serious jurisdictional questions which the court would, of course, want to have raised, but if it is the decision of the court that it has jurisdiction and desires to proceed in the matter, then we are quite happy to proceed with the case to a full determination of the rights of the respective parties and a judgment accordingly.

Of course, the defendant petitioners have not thus far asked that the court do just that, I believe. They have only asked that the court intervene here to enjoin the prosecution of these suits in the other federal jurisdictions and determine some purged questions, but they have not, I do not believe, asked that this thing be carried clear through to judgment in accordance with the rights of the parties as this court sees them.

To us that should be done if the court assumes jurisdic-
[fol. 1435] tion and action in this case.

Because of their pertinence, I want to discuss at the outset two points of conflict which have developed in the briefs and which have developed in the argument and, that is, first, as to the scope of the adjudication of law violation in this case, and, secondly, as to the basic purpose of the decree.

The defendant petitioners rely heavily upon the proposition that our position is untenable because it misconstrues this court and the Supreme Court's acceptance of the truth of the defendant's proffered proof. And because it is based upon the premise that there was a narrow adjudication of law violation in this case.

[fol. 1436] In the argument yesterday Judge Rosenman said that the petitioners claim that the conspiracy extends

to all the products and to patent misuse, and that that was the adjudication in this case.

In contending that we have misconstrued the extent of the adjudication the defendant petitioners have reversed a prior position which they took. As I stated yesterday, they joined unequivocally with U.S. Gypsum in opposing the Government's first proposed findings, conclusions of law and decree in 1948. And the basis of their objection along with ours was that it went far beyond the scope of the adjudication.

It was then contended by them, as well as by us, that in view of the issues joined by the answer, and in view of the proffered proof which the court was accepting as true, every issue was in controversy except only that the companies had executed license agreements with price fixing throughout an industry with adherence to the licenses and knowledge of the adherenec of others.

The adjudication could only be then, we contend, that the defendant companies had acted in concert and that all of these other alleged abuses which were of the traditional type of law violation of the Sherman Act, were not and could not have been included in the adjudication, in the posture of the case when summary judgment was taken.

Of course, the conspiracy charged in the complaint in this [fol. 1437] case was a very broad, sweeping conspiracy. It was not, I do not believe, as Judge Rosenman said yesterday, where he said that the gravamen of the complaint was that U.S.G. by means of patents had regimented the industry. Not at all. The complaint was against U.S. Gypsum, National, Certain-teed, Newark, Ebsary, Celotex—all of these people that are before the court as defendant petitioners, charging them with having conspired in restraint of trade of gypsum board, plaster, miscellaneous gypsum products in the Eastern territory of the United States; charging that they had entered into and carried out this conspiracy in part under the guise of license agreements which were not bona fide agreements, but entered into by the parties to carry out these illegal purposes.

Those material issues were all controverted, of course, by the defendants' answers. And we have the trial which I spoke of in 1943 and 1944. And this court's order of dismissal at the close of the Government's case.

Then the appeal. On the reversal of this court's order of dismissal: The Supreme Court in its opinion in 333 U.S. did comment upon the evidence, and did review some of the evidence with respect to these other collateral charges and issues, and did reject some of the findings of this court, but in everything that it said there it could only have been talking about a prima facie case. It had at that time only the Government's evidence before it, and so that everything that [fol. 1438] it said with respect to that evidence was examining this to see whether the plaintiffs had met the requirements of Rule 41(b), so that they had made their prima facie case, and we were compelled to go ahead and put in our proof.

There were significant statements made in that opinion, both of which were referred to yesterday by Judge Rosenman. I think they are of sufficient importance that I just refer to them again. They are brief.

Because the court said in 333 U.S. at 389, "We think that the industry-wide license agreements entered into with knowledge on the part of licensor and licensees and the adherence of others with control over prices and methods of distribution through the agreements and the bulletins were sufficient to establish a prima facie case of conspiracy."

At page 401 of the same opinion—and this I think is very significant—after they had made this review of the prima facie case that had been made of all of these broad, vicious charges of law violation, the court said, "Even in the absence of the specific abuses in this case which fall within the traditional prohibitions of the Sherman Act it would be sufficient to show that the defendants constituting all former competitors in an entire industry had acted in concert to restrain commerce in an entire industry under patent licenses in order to organize the industry and stabilize prices."

I think there could be little doubt that it was that language [fol. 1439] of the court which prompted the majority of this court when we came back here to conclude that even if all of our proffers were accepted as true, which the court did without any equivocation, we still were in trouble because of that language, because we could not put in our proffered proof. It was not the fact that we did not have

these industry-wide licenses with price fixing that had been adhered to by the parties with knowledge of the adherence of others. And I think it is so clear that that was exactly the basis of this opinion by the statement of Judge Stephens at page 110 of the 1950 record—there he said—and this was during the course of the argument on June 13 and 14, 1949, as to the form of the decree—there Judge Stephens said:

"As I understood the whole argument in favor of the proposed summary judgment and the argument against it, it came down to the single proposition that the Government contended that the Supreme Court had ruled it in its reversal of our decision that a mere plurality of patent license agreements, industry-wide with price-fixing provisions adhered to by the parties was ipso facto illegal, and there being no dispute in the case, so it was contended that there was such an industry-wide price-fixing arrangement, that was the end of the matter, and the case should therefore be terminated by summary judgment, limited to that one undisputed question.

"As I understood my colleagues reached the conclusion when they granted Government's motion for summary judg- [fol. 1440] ment, that the Supreme Court had so ruled, and I stated in a brief oral dissent that I thought it had not so ruled and, therefore, I did not agree that summary judgment should be entered."

Of course, the decree that came down in November of that year from the Supreme Court was entirely consistent with that because of the Article III provision, that the adjudication, that the defendant companies had acted in concert in violation of the Sherman Act by fixing prices in gypsum board, not all of these other things, plaster, miscellaneous products, but gypsum board.

And the Supreme Court, significantly to me, when it dismissed U.S. Gypsum's appeal, entered an order at that time in which it affirmed the finding of law violation in exactly the terms of that Article No. III. In other words, limited to this issue.

And then if anyone could have any possible doubt about it, when the Supreme Court rendered its second opinion, as I stated yesterday, it began by explaining why it had dismissed our appeal and affirmed the order of adjudication of law violation.

This section has not been read in full, and it is just a couple of sentences, but at 340 U.S., at page 88, the court concluded this portion of its opinion by saying:

"However, we read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through the fixed-price licenses, accepting as true the underlying facts in defend-
[fol. 1441] ants' proof by proffer. The trial judges understood the summary judgment to be as Judge Stephens had said, 'limited to that one undisputed question.' Judge Garrett and Judge Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismiss U.S. Gypsum's appeal from the decree, and on that basis we examined the Government's objection to the decree."

I do not see how the Supreme Court could have stated any more clearly what it was affirming in this adjudication, and that it was a very limited adjudication of law violation.

Judge Cole: Was the proffered proof before Judge Stephens at the time of this statement?

Mr. Spray: Yes, sir, it was. Just to relate that, we had been in June, 1948, on the remand from the first reversal, and it was at that time that the court suggested that we file our proffered proof, and the Government file its motion for summary judgment, which was done.

Then later in June, 1948 we had done that and we had the argument. And Judge Garrett and Judge Jackson held that the summary judgment should be granted. The time that Judge Stephens was speaking of was when we were back there in June of 1949 arguing whether the decree should be a broad, sweeping decree or the adjudication a broad, sweeping adjudication, or this narrow adjudication which finally came out in Article III.

As to the defendant petitioners' attempt to make a mock-
[fol. 1442] ery of the Supreme Court's assertion that it accepted as true the underlying facts because of the fact that the court in its second part of its opinion did enlarge the provisions of the decree, they carried the point so far that in the argument yesterday it was stated that in its second opinion the Supreme Court had found as a fact—and I am reading from page 61 of yesterday's transcript where

Judge Rosenman said: "It found as a fact that the price of gypsum board was stabilized, that is, the patented gypsum board and unpatented gypsum board. It found as a fact that the production of open-edge gypsum board was restrained by requiring a royalty on it. It found that prices were fixed in the sale of plaster and miscellaneous gypsum products. It found as a fact that jobbers were eliminated. And it found as a fact that certain trade practices were standardized contrary to the antitrust law."

Of course, that ignores completely the fact that when the court turned to the matter of enlarging the provisions of the decree it did so with this language, which appears in 340 U.S. at page 90, after stating how they had accepted the truth of the proffered proof and the limited adjudication, they said at page 90, and I am quoting:

"We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proved, but recognizing as is conceded by the defend-[fol. 1443] ants that relief to be effective must go beyond the narrow limits of the proven violation."

And then they went ahead to discuss these other things and did enlarge the decree but, certainly, there is no basis from that in saying that that meant they found, for example, let us take the matter that they found as stated in the transcript I just read from yesterday, that they conspired to fix the prices of plaster and miscellaneous gypsum products.

In the first place, with respect to that, if that had been the ruling, it is perfectly obvious that when the court affirmed this decree it would not have affirmed an adjudication, as it did in Article III, that the defendants had conspired, had acted in concert, to fix prices of gypsum board. It would have said of gypsum board, plaster and miscellaneous gypsum products, but it did not. It just affirmed the adjudication that we had acted in concert to fix prices of gypsum board.

Indeed, it is difficult to see how the Supreme Court could still be adhering to its statement that it made on the prima facie case that there was evidence that we had conspired to fix the price of plaster and miscellaneous gypsum products, when they accepted as true these facts, and these are taken

right from the proffered proof: That the defendants' prices for plaster and other unpatented products have at all times been highly competitive and were not in any way affected by the minimum prices established by the licensor for the [fol. 1444] patented board; that the so-called rebate provisions of the price bulletins were not promulgated for the purpose and did not have the effect of fixing or stabilizing the prices of plaster or other unpatented products, but were issued solely for the purpose of insuring maintenance by the licensees of the minimum price for the patented board fixed by the licensor and were protecting it against indirect reductions of that price by secret rebates; that the operations of Board Survey Company were confined to efforts to insure compliance with the licenses and the price bulletins issued thereunder and were undertaken solely to protect the rights of U.S. Gypsum under the license agreements and patents, and its activities were so limited, and that the defendants did not by complaints addressed to Board Survey or by any of its activities fix or stabilize prices of plaster or other unpatented products.

[fol. 1445] Those are all set forth in the proffered proof No. 52, 53, 58 and 59.

I do not think there could be much question but what those were facts which the court said it accepted as true.

Another illustration that can be made with respect to this point is this: If you read Article III of the decree which was before the court you will find that it said that the defendant companies have acted in concert in restraint of trade among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade in the gypsum board industry in violation of Sections 1 and 2.

I might just pause there to say that it is not as was stated yesterday that the court found that U. S. Gypsum had gotten a monopoly by the use of its patents. The monopolization is against all defendants who, of course, represented all of the gypsum board manufacturers east of the Rockies. But the point I want to make is this, that adjudication of law violation was limited to the eastern territory of the United States which, of course, was what it had to be because that was all that was charged in the complaint.

The territory west of the Rockies was not involved at all.

When the Supreme Court looked at this decree which limited the injunctive provisions to the sale of gypsum board in the eastern territory it struck that eastern terri- [fol. 1446] tory provision out and it made the injunctive provisions applicable all over the country.

Surely, it would not be contended by the defendant petitioners, I do not believe, that simply because the court did that in the relief that meant that the court had adjudicated that we had fixed prices all over the country, when that was not even charged in the complaint or before the court. It was not even in the case.

I just think that illustrates the error that they have committed in saying that simply because the Supreme Court enlarged the decretal provisions that meant that they had enlarged the adjudication of law violation which was actually involved in this case.

Accepting as true the defendants' proffered proof, certainly, took out of the adjudication those controversial issues dealing with the traditional abuses of the Sherman Act. It brought the case right back within the scope of the Supreme Court's observation in the first decree and which I think influenced this court in its judgment, and that was that even in the absence of the specific abuses which fall within the traditional prohibitions of the Sherman Act, it would be sufficient to show that the defendants acted in concert in restraining trade.

Upon the remand there were various forms of decrees submitted, as I said yesterday. And finally an agreed form [fol. 1447] submitted to the court, but in none of those decrees, those submitted by the Government, by National, by Certain-teed, by U. S. Gypsum, was there any change in this adjudication of law violation article which was limited as in Article III that we acted in concert, in restraint of trade in the fixing of prices on gypsum board in the eastern area.

U. S. Gypsum is not trying to re-litigate these issues. Its position is consistent and correct. And the defendant petitioners, we submit, were right the first time, and they are wrong now in this strange argument that they should be favored because they were found by the court not to be parties to a narrow adjudication of law violation, but they

were found to have been parties to a broad, sweeping conspiracy to violate the Sherman Act.

It seems strange argument before a court of equity. And I do not mean to encroach at all upon Judge Bromley's field here, but I do just want to pause to say this: It seems strange to me all through here that the Morton Salt doctrine which was for the benefit of the public was something that the courts intended law violators, whether on a large or small scale, to come in and claim the benefit of before a court of equity, and I think that seems even more incongruous when you consider that they must now base their claim for this equitable relief on the ground that they were not adjudicated of a narrow law violation, why, they were adjudicated as conspirators in a broad, sweeping [fol. 1448] conspiracy to violate the Sherman Act.

I would like to say a word about the basic purposes of the decree, because I think that is similarly important to the issue that is before the court.

In their original briefs, National and Certain-teed both conceded that the inherent power of a court of equity was a limited one. And they recognized—and that is the power I think they certainly relied on primarily in sustaining jurisdiction—it was a limited one—and that a court under that inherent power could not go in and change a decree and broaden it or do anything it wanted to. It had to be to effectuate the basic purpose in the original decree.

In considering this matter it seems again to me to be an appropriate starting point to turn to the adjudication of the Sherman Act violation in Article III which we have considered a number of times and, that is, that we acted in concert in restraint of trade to fix, maintain and control the prices of gypsum board and monopolize such trade in violation of Sections 1 and 2. That being the adjudication, it seems to me that the basic purpose must be to prevent the defendant company in the future from acting in concert, not only in the way that it did, but in other ways. And I say that the examination of the decree shows that that was done.

The prohibitory injunctive provisions of the decree are in Article V where the defendant companies were enjoined in [fol. 1449] the first decree from further performance of enforcement of the provisions of patent licenses, from

entering into or performing any agreements or understandings among them or any of them for the purpose or with the effect of continuing, reviving or restating any monopolistic practice, and from entering into or performing any agreement or understanding in restraint of trade in gypsum board in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or the terms or conditions thereof.

That decree, of course, was enlarged, but when you come back to the decree of May 15, 1951, which is of course the one that we are concerned with here, you turn to Article V again which has the injunctive provisions in it, the prohibitory injunctive provisions, and you will find there that while it is broadened to include, for example, gypsum products as well as gypsum board, and to include an injunction against restraints by license agreements or any other course of action, it is still dealing with this basic problem which I think was the basic purpose of the decree, because there the defendant companies are enjoined from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to fix, maintain or stabilize by patent license agreements, or other acts or course of action the prices or the terms or conditions of sale of gypsum products sold or [fol. 1450] offered for sale to such other persons in or affecting interstate commerce.

And then there are several specific practices listed which are in 1, 2, 3, and 4 of Article V. And the defendant petitioners attempt to make considerable out of that, but they overlook the fact that none of those are prohibited except when they are done pursuant to such an agreement or understanding, namely, an agreement or understanding to fix, maintain or stabilize prices under the terms and conditions of sale thereof by license agreements or other concerted action.

The objective, I believe, of Article V and its effectiveness to accomplish the basic purpose of the decree is obvious. It was to prevent this further concerted action in the fixing of prices, as I have described.

I would also point out that Article V is applicable to all of the defendant companies. It dealt with equal force and effect with respect to all of the defendants. It made no

attempt to grade the defendants into different classes of law violators. There was nothing purporting to establish rights in one defendant to use the property of another defendant.

U.S.G.'s view is that it cannot be contended that preventing U. S. Gypsum from undertaking to collect for the uncompensated use of its patents was in any way a part of the basic purpose of this decree.

It is quite true that the license agreements were struck down, and that U. S. G. as a part of that relief was required [fol. 1451] to grant licenses, but not free of charge, but licenses for the reasonable value of the use.

And every suggestion that was made for licensing in this industry was on that basis, that it should be for a reasonable royalty.

The basic purpose, I submit, is being adequately served by the present provisions, the present injunctive provisions.

Judge Cole will recall, and the others undoubtedly have read the record, that at the June 9, 1953, hearing the court was assured by the defendant petitioners that there was not any charge of or thought of Sherman Act violations going on now.

The basic purpose of the decree is being accomplished without any implementation of supplementation or just plain broadening as is contended for by the defendant licensees.

It is, of course, most important to us to consider this question of whether or not this decree could possibly have been deemed to have enjoined U. S. Gypsum from asserting its rights in the good American way of a suit in a court of law. We contend that it does not in any way enjoin us from bringing these suits, and that such an injunction at this time would be an unwarranted broadening of the decree to cover matters not before the court at that time.

There could be little dispute as to the rules applicable to decretal provisions and their construction. I do not believe we have much argument about that. Injunctive provi- [fol. 1452] sions must be precise and specific. Injunctions are not decreed by implication. The requirement for explicitness is codified in the Federal Rules of Civil Procedure.

Rule 65(d), which is set forth at page 71 of our brief, and which reads:

> "Every order granting an injunction and every restraining order shall set forth the reasons for its issuance, shall be specific in terms, shall describe in reasonable detail and not by reference to the complaint or other document the act or acts sought to be restrained."

It is an equally well settled rule that the effect of a decree as an adjudication conclusive upon the parties is determined by the issues actually presented and determined by the court and intended to be determined by the court. So that even broad language when subsequently construed will be read strictly in the light of the actual controversy that was before the court.

Tested by these rules it is our contention that there is no basis for claiming that the decree of May 15, 1951, enjoined U. S. Gypsum from bringing these suits.

Where is the specific injunctive provision against our suit? Neither the Government, nor the petitioners can point to any language that is in anything like injunctive language against the bringing of these suits. They are compelled to rely solely upon the provisions of Article IV.

[fol. 1453] Each of these license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void.

Judge Worley: I wonder why they used that very broad term "unlawful" there.

Mr. Spray: I think for two reasons. It was following the statute, to begin with. And in the second place, it is exactly the language of the Masonite decree which had been handed up to this court at the time of the June, 1949, hearing. That would be the best answer I can give you.

I think I can demonstrate how untenable that contention is by just suggesting this: Suppose this decree had stopped with Article IV, just had the first four Articles. Would anyone possibly contend that the defendants were enjoined from doing anything? I am sure that the Government would not say that Article V with the injunctive provision was surplusage in this decree. And I am sure they

would insist upon having it there, although in Article III it is adjudicated just as in Article IV there where it says, that we have asked in concert in restraint of trade to fix prices in gypsum board and monopolize board in violation of Sections 1 and 2 of the Sherman Act. But that does not constitute any injunction, and no one could possibly seriously claim that it was an injunction.

Of course, after declaring that the injunctive provisions come along and supplement this declaration by enjoining [fol 1454] us from doing anything that would constitute another violation of that sort.

By the same reasoning I say that Article IV simply, because it declared these license agreements unlawful, it not an injunctive provision unless there is an injunctive provision put in the decree, as it is put in many decrees that the patentee is enjoined from suing on the license and is enjoined from suing for infringement of its patents prior to a certain date.

The defendant National, to be specific, in their brief cite scores of cases from 1946 to 1952, where such a provision was put in the decree, but to me that is not persuasive here because the fact of the matter is that it was not put in this decree. And I think that the fact that it was of such common usage, where the court thought it was necessary, argues against it, makes it significant that the court chose not to put it into this decree.

[fol. 1455] There is another reason why this article for argument cannot be a foundation for this strained construction that is being urged, I submit, by the Government and by the defendant petitioners.

This language, as I stated to the court, was first suggested to the court at the June 14, 1949, hearing. A copy of the Masonite decree had been handed to the court as the decree that had been entered by another U. S. District Court in a case where there had been a narrow adjudication of law violation. The defendant licensees made their presentation.

Mr. Finck handed up to the court a schedule by which they would like to be heard, saying that the defendant licensees had worked out a schedule for the presentation of their views. Mr. Finck was the first to speak. He representing National.

And after joining wholeheartedly with U. S. Gypsum's argument that had been made in favor of the narrow law adjudication, he did take issue with certain provisions of the U. S. Gypsum Company decree and said that he felt that the whole of the license agreement should be declared illegal, rather than just the minimum price provisions which we had in our decree.

In that connection he said, at page 8192 of the transcript that "the U.S.G. decree only strikes down the minimum price provisions, and they leave open everything else. They do not disturb the other parts of the present agreement.

> [fol. 1456] "Chief Judge Stephens: For example?
>
> "Mr. Finck: For example, the claim for royalties on the manufacture of unpatented products.
>
> "Chief Judge Stephens: What others, Mr. Finck? I am asking only to get in mind your point—what other items?
>
> "Mr. Finck: Well, I have no other specific ones. There may be many of them, but that is one."

Mr. Miller, representing Certain-teed, was the next to appear at that hearing. This is the June 14, 1949, hearing. He started out by saying that he agreed with the argument that the adjudication was a narrow law violation. But he still felt—I think it has to be admitted—that the Supreme Court has found that the license agreements and price bulletings were violative of the Sherman Act; therefore, they are illegal and they cannot be clothed with legality by reason of the fact that the parties did not intend a violation of the Act and relied in good faith on the General Electric case.

Then later in his argument, Mr. Miller said that he thought that with some slight change they could get together with the provision of the Government on the matter of further licenses. And when he was asked about that, whether he was going to come to the modification that would be required in the decree, Mr. Miller said at page 8206:

> "We have already taken care of that, and [fol. 1457] Mr. Dallstream who will follow me will

present to Your Honors the exact changes we desire to make in both decrees which would give us the decree we would be satisfied with and which we hope that Your Honors will adopt."

Again, at page 8209, when another question was asked, Mr. Miller said with regard to the Masonite decree:

"I think I would like to defer any further statement about that, because Mr. Dallstream who was very active in that case representing the licensee there is going to follow me and will also present in his statement the exact changes we feel ought to be made in the decree."

In those decrees, meaning the ones that were before the court.

Mr. Dallstream then spoke, and he was attorney for Celotex Company, who are not before the court at this time, because as Your Honors will recall at the June 9, 1953, hearing, the attorney for Celotex appeared here and said they were not sued because they had the understanding and agreement with U. S. Gypsum that they would pay the royalties and they had set up a reserve fund—they would pay it if determination was that the other licensees should pay it.

Mr. Dallstream spoke about his experience in the Masonite case and how they had this Clause 4 to cut out all of the [fol. 1458] license agreements and start again in the making of new license agreements and had done that, and presented the new agreements to the court.

He made this significant statement:

"In order that U. S. Gypsum Company will have no misunderstanding of my position I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree upon an appropriate license agreement as far as my client is concerned, we are willing to let the royalty rate, whatever it is agreed upon, apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding

the license fees which during this period none of us have paid."

The defendants say he was not speaking for them. He says, "as far as my client is concerned, the agreement can date back," but it is pretty broad language and this is the man that was presenting at least for Certain-teed the provisions they thought should be in the decree.

> "I want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which [fol. 1459] during this period none of us have paid."

And the defendants, National and Certain-teed, at least, do say that he was speaking for them at one point, but only when he said at page 8225;

> "I think that fully expresses my views except the fact that I want to again call the court's attention to the fact that the language of Article 4 which I suggest was taken directly from the Masonite case which reads as follows, 'that each of the following agency agreements' "—they were agency agreements there rather than license agreements, et cetera—"is adjudged unlawful under the anti-trust laws of the United States as illegal, null and void."

[fol. 1460] Judge Worley: Where is that from?

Mr. Spray: That is from page 8225 of the transcript, the hearing on June 14, 1949.

Continuing with Mr. Dallstream's language, "I think that disposes of all of the problems and the confusion which Mr. Finck and others have been laboring under. I do not think any of us want to do anything that is improper so far as our past royalties are concerned, once that matter has been determined and license agreements have been taken care of, and we ought to have this thing either fish or fowl."

Mr. Rippey, then speaking for Ebsary as he is here for Ebsary, gave his reasons as to why this Article IV should be included, and he said with respect to the license agreements, this is at page 8228, "We feel that they should be canceled in their entirety, not parts of them. The bargain that was

made by the licensees, at least by Ebsary Company, was with respect to all of the provisions. If the court were to strike out some it would amount to making over the agreement which the defendants made, and the contract as a whole was the bargain, not in parts."

Mr. DeWitt spoke for Newark, and he assigned three reasons why Article IV should be included, at page 8241, so that it seems to me a reading of the Supreme Court must indicate that the Court did not contemplate that this court would try to winnow out of the wheat from the chaff and decide which of the provisions of existing license agreements are valid and invalid.

[fol. 1461] It seems to me that the Supreme Court clearly was of the opinion that the agreements as a whole were invalid.

Then a second one was that it would cause great confusion in trying to renegotiate licenses if there was dispute as to what was legal and what was illegal. That is, he said on page 8242, "That is not merely an argument made for the sake of making the argument as an academic enterprise. I think it has practical implications, because when we come to negotiate new license agreements, if this court should attempt to separate price-fixing provisions as illegal from the other provisions which are legal, we will be met in the negotiations of new contracts with the contention that provisions in the existing contracts which are not clearly price-fixing provisions have the blessing of this court. For example, if this court takes the position that only price-fixing provisions are condemned, then what are we to say as to the provision in the existing contracts to the effect that the royalties are to be payable whether the patents are used or not?"

And finally he gave as a reason on page 8243, a final reason why this provision should be included in any decree. And by this provision he meant Article IV. That is furnished by the example of the Masonite case where, as Your Honors have already been informed, the decree expressly provided that the agreements were null and void.

Later in reply argument Mr. Knuff, for the first time, suggested that they probably would want to amend their [fol. 1462] decree by putting that provision in, but there was no statement that its purpose was to act directly, in-

directly, or in any possible way as an injunctive provision against suits for the recovery of the use of our patents.

I have taken the time to read that because I think it is most significant, that in presenting this Article IV to the court no one, neither the Government nor any of the defendant licensees, made the slightest suggestion of a purpose such as the purpose that is being argued, and such as their whole case is based upon today, that that purpose was to enjoin suits by U.S. Gypsum Company.

Judge Stone: May I interrupt you? In that connection, I notice that on the page beginning on page 25 and going over to pages 26 and 27 of the National reply brief, National discusses the Dallstream situation. On page 26 it says U.S.G., after not before the Dallstream statement of June 14, 1949, made not passing but repeated reference, and so forth. And then there is a purported quotation a little lower on the page.

What significance, if any, do you give to that situation of the time of those statements as there stated, if you concede that that is accurate there?

Mr. Spray: I believe, if Your Honor please, that it has little significance. Certainly, it has been blown all out of proportion by the defendant petitioners. That is included in this memorandum that was handed up to Your Honors yesterday.

[fol. 1463] The fact of the matter was that during the course of the argument Mr. Connelly, arguing for U.S. Gypsum, had made that little prod that, perhaps, why they were wanting Article IV was thinking that it might do them some good in defeating royalties they had not been paying. That was followed by this argument of the defendant petitioners which I have read in some detail, including the Dallstream article.

Following the decree, National and Newark both with leave, of course, filed a memorandum urging their views with respect to a decree, and both had asked for this language of Article IV. Neither one of them saying anything as to the purpose being to enjoin our suits.

This memorandum was in reply to the National and Newark memo. And in that we again took this prod at them that they must think that that is going to help them in any suit to try to recover past royalties. That must be their purpose.

We did not say, as has been represented here, that we conceded that that would be the effect of that. We were merely saying or throwing out the possibility that that is what they thought might be the effect of it. And we were trying to prod them out of the bushes to make a declaration that that is what it was, but they never came out until the filing of these petitions.

So that I feel that that statement is not too significant in this case.

Judge Cole: Did not Mr. DeWitt argue at the time to the [fol. 1464] contrary, as he stated yesterday, as to the effect of this language?

Mr. Spray: Yes, Mr. DeWitt argued that.

Judge Cole: Of the Newark Company?

Mr. Spray: Of Newark, yes. He was the one that stated the three reasons. He thought that the Supreme Court's opinion had declared them illegal.

Secondly, it would avoid the difficulties in executing new licenses. And the only illustration he gave was whether or not the provision for royalty on all board would be bad.

And the third was we ought to follow what was done in Masonite. He did not say anything about it having any injunctive effect at all.

Judge Worley: Do you agree with Mr. DeWitt's analogy that he used yesterday that the illegal use of premises or the lease of premises for an illegal purpose—do you recollect that?

Mr. Spray: I do not quarrel with his analogy, but I do think it does not have any bearing here. Certainly there is nothing illegal, there is nothing illegal about a license to use our patent. And there is nothing illegal about paying for it.

Judge Worley: I thought that he took the position that under Article IV it was unlawful, illegal; consequently, you could not collect it.

Mr. Spray: That is the position which is at issue. It is not in issue. They have not filed an answer in New York, [fol. 1465] but it is an issue out in the Iowa court which we will have to thrash out there. We contend that it can be distinguished. As careful lawyers we would have been remiss had we not included that count out in the Iowa case.

In the National reply brief, at about the place where

Judge Stone called my attention to, page 24, reference is made to an amended prayer which the Government had injected in this case back in March, 1943. And that was that the defendant companies, not U.S. Gypsum, but the defendant companies, and each of them be enjoined from bringing any action for infringement of any patent or patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of them; and from attempting by suit or otherwise to collect royalties or license fees or profits for the use of patents now owned or controlled by any of the defendants or hereafter issued on pending applications now owned or controlled by any of the defendants relating to gypsum products or in any process or machine used in connection with gypsum products until it is made to appear to the court that all improper practices have been abandoned, and the consequences of all misuses of patents have been dissipated.

Well, they say that since that prayer was informally withdrawn, then it was adjudicated by the court, and that Article IV meets the requirement of that prayer that we be enjoined. Of course, just reading the language of that [fol. 1466] prayer and the language of Article IV shows that that could not possibly be the type of decretal order which is being asked for in the prayer of that sort. What they are asking for is the type of order which, as I have readily conceded, is found often in cases but not in this case, that specifically includes an injunction against suing for royalties on the contract that has been declared illegal and against suing for infringement of the patents.

I say that the only significant thing as regards that provision is that, well, it has no significance. Certainly, an abandoned prayer can have no significance, unless it be to claim that the court had rejected the request.

There is, of course, an inconsistency in National's contention that Article IV in the light of that language should be considered as an adjudication, because at that time, as they say on page 25, that was sufficient then because the only claim U.S.G. had indicated it might make was for royalties under the license agreement.

Well, back at page 43 when they are trying to say that the repudiation of the licenses in 1948 was not significant, they

say, "Though some of the defendant licensees had to pay royalties after March 8, 1948, that was a unilateral decision in which U.S.G. did not concur, for U.S.G. constantly made clear its view that it remained entitled to compensation for the use of its patents during this period."

[fol. 1467] Whichever of these inconsistent positions National should ultimately choose to stand on is immaterial. The fact remains that all defendant petitioners were on notice. And the contention that nobody asked for a specific injunction because no one thought U.S.G. was going to seek compensation is without foundation and is unsupportable.

Of course, the defendants show their lack of faith in this contention repeatedly. In National's brief, for example, it said after arguing that that must be taken as an injunctive provision. In any event, it is clear that the declaration contained in Article 4 that these agreements are illegal, null and void is sufficient basis for a specific injunction now against enforcement of the agreement. The lack of a prior injunction against enforcement of these agreements might conceivably stand in the way of a contempt citation against U.S.G. It certainly does not stand in the way of a specific injunctive implementation of that declaration.

That is from the National brief. Later on in that brief it is stated:

> "In any event, there is a real question whether in this case, in a case such as this in which a broadening of the decree is sought, changed circumstances must in fact be shown."

And in the Certain-teed brief it is stated:

> "To argue that because the decree failed to [fol. 1468] contain an injunction preventing the enforcement of such illegal, null and void agreements is an absurdity and should not be countenanced by the court. The absence of an injunction against the enforcement of the illegal, null and void agreement cannot stand in the way of a specific injunctive implementation by this court now."

We respectfully submit that it is perfectly clear that this court had no intention of enjoining U. S. Gypsum from the

bringing of these suits which have been brought. Whatever may be the ultimate decision as to the right of U.S.G. to recover on these suits, the federal courts in which they are brought certainly have jurisdiction and are quite competent to determine that question.

And so I respectfully submit with respect to that point that there is no provision, and you can point to none—you can read none of an injunction against us in bringing this suit. I do not think that the court had any thought on the part of its basic decree of penalizing U. S. Gypsum in that case.

And the language of Judge Jackson and Judge Garrett at the close of that argument on June 14, where they made so clear that there is not any question of bad faith, everybody in good faith here relied on the General Electric case, does not show any spirit, I submit, of an intention to deprive U. S. Gypsum from compensation for the use, any use [fol. 1469] which its co-defendants and equally guilty co-defendants were actually making of those patents.

A word now with respect to the jurisdiction point. I have taken so much of my time that I must try to cut that down.

Judge Stone: May I ask you before you leave that point and in connection with what you have been considering, this question: Take the two Article 5's, that is, in the 1949 decree and in the final decree, those are the specific injunctive articles in the decrees. I assume the language used by the court in framing each of them was carefully chosen and subjected to the scrutiny and suggestion of counsel.

Do you attach any significance to the omission in the final decree of the use in the 1949 decree of the words "further performance" or enforcement of any provision of the patent licenses? And I am accenting the word "further."

Mr. Spray: I understand that.

Judge Stone: Has that any significance in the decrees?

Mr. Spray: I thought it had only this significance, and that was that when the Government went before the Supreme Court on its second appeal it submitted a form of decree which had revamped this Article 5, and which had omitted that provision. I, of course, do not know why they did that.

It was stated in the Supreme Court argument by Mr.

Weston that it was unnecessary. As he called it, painting the lily, because the licenses had been declared null and void. [fol. 1470] I certainly understood him to mean in that argument that when you declare them null and void there cannot be any further performance in violation of the Sherman Act under those things. It was painting the lily to further enjoin performance.

I do not think actually there was any thought with respect to the matter of further performance in the sense of trying to collect for any past use of the patents.

[fol. 1471] I am influenced a bit in that from the fact that the Government's first decree which it presented here in November of 1948, dealt with the matter of cancelling the licenses in this way: It had provided in Article VI that the U. S. Gypsum should be compelled to give licenses at a reasonable royalty, and new licenses. Then it provided in Article VII of that proposed decree that the old licenses would be cancelled upon the execution of the new licenses or 60 days after the effective date of the decree. In other words, it gave 60 days to work this out.

And then it provided that there should be no further performance or enforcement of the license agreement after the effective date of the cancellation, which you see would enable the new licenses to fit in. And there was not any provision of that sort.

Now as they revised this thing they dropped out that provision about the cancellation, and no further provision for enforcement after the cancellation date. That just dropped out of the decree.

It seemed to me that that contemplated that U.S.G. and its co-defendants would collect the royalties all through. It certainly did not prohibit it. I think it had a setup that permitted it and, consequently, when they deviated from that way of handling it they had tied it in so definitely, this further performance and enforcement, with that cancella-

[fol. 1472] tion date which was off in the future here some place, it just seemed to me that they dropped it out of the other decree as unnecessary, because certainly if you had enjoined the defendants for everything that they were enjoined from doing in Article V, there could not be any further performance in violation of the Anti-Trust Act under those cancelled licenses.

Judge Stone: Or enforcement?

Mr. Spray: Or enforcement, that is correct.

Now with respect to the jurisdiction question, as I say, I think that that has been pretty fully briefed in point 1 of our brief.

This is a special statutory court that after years of litigation felt that it had entered a decree here which was sufficient, that had been approved by all of the parties. And if you will read the proceedings of the May 15, 1951, hearing, when this approved, it was with great care that the court interrogated each of the parties to be sure that they were satisfied with this decree. And for all purposes they had ended this litigation except only with that reservation in Article X which was that jurisdiction was reserved for any of the parties to come in to apply to the court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate. One, for the construction or carrying out of the decree; and, two, for the enforcement of compliance therewith.

[fol. 1473] When the defendants who joined in that decree come forward with petitions seeking to raise as we feel new issues the question naturally arises as to the jurisdiction of this court. The petitions when they were filed by their very language were obviously filed under this Article X, but when the briefs were filed it seemed to me quite obvious as you read the briefs of National and Certain-teed, they have deviated from reliance on that. On the other hand, have turned to the inherent jurisdiction of a court of equity.

We handled that matter of abandonment of Article X in our brief. And in the reply briefs there really was not any reply made to our distinguishing of those cases, because we do point out there that all you have to do is to read Article X as compared with some of the reservations of jurisdiction of other decrees where it is perfectly clear they reserved the right to modify or change. There is language in decrees which we have in our brief.

On the matter on which reliance was placed by the defendant petitioners we raise no question of the power of this court to enforce its decree. There is not the slightest question about that. Our point is what is being asked is not

a matter of enforcement of this decree. For that reason we think all of the cases cited are not in point.

As to the question of the inherent power, we do not dispute that. We do think it has some limitations and that [fol. 1474] defendant petitioners recognize that it has. One of them is that whatever is done under this inherent power must be in aid to effectuate the basic purpose of the decree. If you are for something that was not a part of that decree or a basic part of it, then the inherent power is just something nice to argue about, but it has no pertinency here, in our position.

I do not raise any question but what this court has certainly the inherent power of any court of equity. I make no point, because it is a special statutory court that that power would be any different here. We do feel that a true understanding and analysis of the Swift case would show that what they were talking about there, as far as inherent power was concerned, was to grant some relief in the future where the claim was that changed conditions made the decree a hardship upon the defendants.

As to the paramount jurisdiction of this court, well, I think that is more a suggestion. If this court feels that it has jurisdiction I think it could intercede here.

I do believe, however, that there is not anything to the point that there is no jurisdiction in the court in Iowa to hear this contract suit, the infringement suit that has been filed out there. For example, in Iowa, or in New Jersey and New York. I just think that there is nothing in the law that I have seen that has been cited that says that this court, once having heard this case ten years ago, must be the only court [fol. 1475] in which questions can be raised in the future with respect not to the issues that were really before the court back there, but rather collateral issues that have arisen between co-defendants as to the right to pay and the right to collect for the use which one of the co-defendants has made against another of his property.

I have only one thing more which I would like to mention. That is with respect to this large document that was filed yesterday. I am not too happy about being served with documents of this sort with the suggestion that care has been taken in preparing it, but if anything is wrong I am sure that we will call attention to it. I have tried to go over

this. I do not purport to be able to give any detailed discussion of it, but there are one or two things. Just briefly, which struck me that I think should be called to the court's attention.

On page 2, the column under the plaintiffs' original proposed decree of November 27, 1948, they have a notation that defendant licensees, that is, in the footnote, National, Certain-teed, Newark, Ebsary and Celotex, joined with the plaintiff in support of Articles III, as amended, VI and VII of this decree. It seems to me that in fairness when in the next column they set up U. S. Gypsum's original proposed decree, they should have also put a footnote that the defendants National, Certain-teed and Ebsary by written memorandum joined in all of the provisions of this decree, [fol. 1476] except Articles VI and VII. I did not say Newark, I do not believe. I said National, Certain-teed and Ebsary.

Mr. DeWitt: Not Newark?

Mr. Spray: That is right. I think that would be a little fairer than this. That was accepted by those three defendant petitioners in all respects, except only Articles VI and VII.

Another thing, turn to page 4: It seems to me that while it is all there, if you read it carefully, but looking at this Article III, the italicized portion up there. That, of course, was not in the original proposed decree of November 27, 1948, at all. It was put in later, as I say, in the footnote. And they have dropped out a provision that was in the decree of November 27th, 1948, about the cancellation to be effective upon the granting of their licenses or 60 days after the decree, which I mentioned. I think that that is a little confused.

I turn here to page 14 where they have the history of the findings with respect to unpatented board. One of these columns states the Supreme Court opinion of 333 U.S. 364. In none of that is there any suggestion that that could only have been with respect to the prima facie case. And there is no quotation at all with respect to the pertinent paragraphs which both Judge Rosenman and I have read to the court during the course of this argument.

Then again in the fourth column on page 15, the middle [fol. 1477] column, there they purport to say everything

that the Supreme Court has said in its 340 U.S. 76 about this proffered proof. Well, they do not have anything in there—and the purpose, I suppose, is to try to show that this court held and made findings in the second opinion with respect to the patented board—they do not say anything about the limited jurisdiction and the understanding that it was limited to the one undisputed point which I read from the opinion on page 88, nor do they read the part of page 90 that says in approaching the matter of relief that they did it with the understanding that the relief should go beyond the proven violations of law. I read that to the court this morning. I think that is not exactly a fair presentation there.

That, of course, runs through all of these last pages. Nothing is said about the Supreme Court opinion being prima facie and what it said there. Nothing is said about the omitted portions of 340 U.S. in the second opinion which I commented upon.

And I noticed also that in the first column of page 19 which is headed, "The Proffered Proof" by U. S. Gypsum with respect to plaster and miscellaneous gypsum products, they have not included paragraphs 46, 52, 53 and 54 which are certainly pertinent to that provision.

That is, I think, possibly all that I care to say about that. [fol. 1478] I only suggest that might be enough to raise some question as to just how much value this may be to the court.

Perhaps you will have to work from the other documents.

Thank you for the courteous and patient attention.

Judge Stone: The court will take a recess of 10 minutes.

(Recess.)

Judge Stone: You may proceed.

ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Mr. Bruce Bromley

Mr. Bromley: May it please the court, my first submission this morning will be that this court should not enlarge or interpret its existing decree to resolve all or any of the

many questions pending before the District Courts of the three states involved.

The function of this court is to preserve the public interest and not to referee any disputes between a group of companies, all of which have been adjudged equally guilty in Sherman Act violation.

And I say it makes no difference essentially whether the determination of the Supreme Court was broad or narrow. So long as this court feels that the public interest is protected by the existing decree, then it is not called upon, I submit, to change those provisions. And nobody makes any suggestion here that there is today any Sherman Act violation. Indeed, the only factual adjudication in this present [fol. 1479] Government suit relates to a period of time prior to 1943. That is all that has ever been litigated.

There is not any evidence here, there is not any showing here, and there is not any contention here that anybody of this group has violated the Sherman Act since 1943. And everybody knows that not a price has been fixed in this industry of any product under a license or otherwise since 1941, 13 years ago.

But I think it does help to realize that the adjudication which this decree sought to remedy was the very narrowest kind, as Mr. Spray has said.

And because I fear that there may be some slight confusion as to precisely what the Supreme Court decided I should like to trespass upon your patience by repeating the contentions so ably argued by Mr. Spray in the light of a homely illustration.

I took the lead in the defense before this court at the trial —and it lasted five or six long months, and a great number of living witnesses were produced and examined and cross-examined by Mr. Knuff, by me and my associates. None of the gentlemen who have spoken from this table were at the trial in the sense that Mr. Knuff and I were. But those five or six long months were consumed with merely the Government's presentation of this controversy. And they consisted of thousands of pages of living testimony and hundreds of exhibits.

When the Government rested we moved to dismiss it on the grounds that no prima facie case had been made out. [fol. 1480] The court granted it. The Supreme Court re-

versed it. And we went back to this court, in the Court of Customs and Patent Appeals.

I was ready with my witnesses, because among the witnesses who had testified for the Government were men like Mr. Brown who testified to conversations with Mr. Sewell Avery, the president of my company, who testified and had written memoranda about various transactions and group meetings and discussions over the years.

Mr. Avery was then and still is alive and kicking. I almost said especially kicking. But he was there, ready to answer the testimony that had been offered against us, as with many witnesses. And this court in effect said to me, "My friend, there is nothing you can do. There is nothing that any of your witnesses can say. There is no document you can put in evidence. There is nothing you can do. And we will not hear you. Of course, you can tell us what you want to do. You can make an offer of proof."

Why did the court take that position? The court took that position because the Government, Mr. Knuff, elected to avail itself of the provisions of the summary judgment rule in the Federal Rules.

What does that rule say? Summary judgment will be granted where there is no disputed issue of fact.

Every fact which was supported by evidence taken during the five or six months of the Government trial was disputed [fol. 1481] except one—except that there were six pieces of paper signed by the parties before the court which contained clauses giving the licensor the right to fix and determine the prices at which the licensee should sell the patented goods after manufacture under the patents.

That I could not dispute, nor could I dispute that up until 1941 the licensor under the General Electric case and pursuant to the provisions in the licenses had fixed the prices.

The Government said, "That is enough for us, Mr. Defendant. We move for summary judgment on those grounds. And we do so because there is a hint in the Supreme Court decision," which had ruled broadly contrary to the decision of this court, that there was evidence supporting every one of those broad charges of the great broad conspiracy that was alleged in the complaint, but there was a hint that it might be enough to establish a violation, just to show that there were licenses issued to everybody in the industry

which were identical and each of which had price-fixing clauses in them, and the prices had for a period of time at least until after commencement of suit been fixed.

So the Government elected to stand on that.

And that is the only adjudication that there was. The motion was granted to the one. The Supreme Court said that was right. And that is why it seems to me to be so significant, as Mr. Spray pointed out to you, that we are not [fol. 1482] guessing about this, because in the second Supreme Court opinion after final judgment had been granted the Supreme Court said, as Mr. Spray read to you, and it appears at 340 U.S., page 88, and I quote:

> "We read the preliminary statement of the District Court to the decree and the summary decree itself as an adjudication of violation of the Sherman Act by the action in concert of the defendants through fixed price licenses, accepting as true the underlying facts in defendant's proof by proffer. The trial judges understood the summary judgment to be as Judge Stephens said, 'limited to that one undisputed question.' Judges Garrett and Jackson agreed. That conclusion entitled the Government only to relief based on that finding and the proffered facts. On that basis we dismissed U.S.G.'s appeal from the decree and on that basis we examined the Government's objection to the decree."

And that is why in the decree itself—and you have it in a separate document or as Appendix A to our brief, the only adjudication of violation—and this has been in all of the decrees—is in Article III on page VI of Appendix A to the Gypsum brief:

> "The defendant companies have acted in concert to fix and maintain and control the prices of gypsum board and have monopolized."

That is the adjudication—that is the only adjudication. [fol. 1483] And it is as narrow as it is possible to conceive it, it seems to me. That is why this court, when it was faced with the task of framing the relief in 1951 gave a very narrow injunction. And they were quite right in doing it.

I say to use Mr. DeWitt's language, the transaction that

was condemned was the transaction of having a multiplicity of fixed-price licenses, and that is the only transaction condemned.

There was no adjudication that anybody misused any patents. There was no adjudication or thought of disenfranchising U.S.G. from realizing upon its property.

This in spite of the fact that the Government, pursuant to this broad conspiracy, had a prayer in its complaint to that very end. That prayer is set out on page 24 of the National reply brief. And that prayer which the Government stuck into the suit just prior to the opening of the trial, page 24 of National's reply brief, was that:

> "All of the defendants be enjoined from bringing any action for infringement"—

that is subparagraph (k) at the bottom of page 24—

> "that they be enjoined from attempting by suit or otherwise to collect any royalties, until it shall be made to appear that all of the consequences of patent misuse have been dissipated."

So the court knew full well what the problem was. There was not any mystery about it. It was asked to declare a [fol. 1484] misuse of the patents and to disenable us and all of the defendants from realizing any benefit from these patents until we should have affirmatively established that not only the misuse had ended, but that all of the consequences, if there were any, had been completely dissipated. And the court refused to do any such thing.

Of course, the relief that it granted nobody can quarrel with this, was a little broader than the adjudicated wrong. It extended west of the Rocky Mountains, although there was no proof we ever did anything wrong there. We do not quarrel with that. That is only Hornbook law to make sure that the central violation is not repeated. Any court will take pains to make sure that the injunction is broad enough to prohibit its resumption in any form. That is why the relief is a little broader, but it is not very much broader.

There is nothing in it that either adjudicates a patent misuse or says that you cannot get compensation in any form for the use of your patents.

It is sometimes surprising to me how reasonable men can draw directly conflicting inferences from the same set of admitted facts.

[fol. 1485] Judge Rosenman called your attention to page 6 of our memorandum submitted back in 1949. He handed you a copy of it. And he read to you or called to your attention that little short paragraph just above the middle of page 6, which says as follows:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision."

I draw the inference from that statement that the court's attention was drawn to the fact that there was here in question a conflict, a possible conflict, between the parties as to whether U.S.G. could collect royalties under these agreements, even though they had been declared illegal. And everybody knew we wanted to get our money. There never was any doubt about that. And in spite of that fact this court contented itself with declaring the contracts illegal and I think inferentially said, "Let the chips fall where they may. We are not going to stop this patent owner from an appropriate juri-diction getting compensation for his patents, if he can. We are not going to referee any private dispute between these defendants. The court in which the controversy is brought is competent to decide that. The principle of misuse and purge is well established in the law. Everybody knows the difference between a suit [fol. 1486] on a license and suit for an infringement. And those questions can be appropriate reserved to the time when they are brought up."

But let us approach the question directly. What does flow from this adjudication in the decree in Article III of illegality?

I was much interested to read in the Government's brief this statement on page 11, and before I read it, let me say I was much pleased to find that the Government agreed with us, at least, that this adjudication could not possibly extend any further than barring our suit on the express contract, but in that connection at page 11 they say this:

"Possibly U.S.G. will contend that if this court should conclude that its judgment does not bar U.S.G. from maintaining the quantum meruit and infringement claims asserted in its suits, the court should hold that its judgment does not bar suit to enforce the illegal license agreements."

Thus to me is shown the Government's concern with the difficulties which even its position creates.

What does flow from this adjudication of illegality? Is it merely that the contract cannot be sued upon as the Government says? Or is it, as petitioners say, that we cannot get compensation for our patents in any form?

We are not left in the dark as to what the consequences which this court intended should flow from that adjudication, because this court has solemnly said what they should be. And it said that in Article V, the natural place for it to say it.

[fol. 1487] And in Article V, as Judge Rosenman indicated again, going to Appendix A, it is perfectly possible indeed it is the correct thing to do to read those prohibitions with relation to the license agreements. Let us look at the first paragraph of Article V.

We are enjoined from performing, among other things, in the fifth line, we are enjoined from entering into or performing any agreement among the defendants by patent license agreements or otherwise which fixes the prices or the terms and conditions of sale.

The language was changed. We are not enjoined from enforcing any provision of that agreement. We are enjoined from performing any agreement to fix prices.

So in paragraph 1 we are enjoined from an agreement which classifies purchasers and the contention was made that our license agreements did just that.

We are also enjoined in 2 from refraining from selling products by agreement. And the contention was made that our license agreements did just that, by having a provision about whether we could sell to jobbers or whether the licensees could sell to jobbers or not, and at what price.

And so in the third we are enjoined from agreeing upon any delivered price, which again was contended at the trial to be a part of the price-fixing bulletin, to make the price basis all uniform throughout the industry.

[fol. 1488] And finally we are enjoined from policing the

prices of our competitors, which it was alleged we did by the Board Survey Company, to police and implement the price-fixing provisions of the licenses.

The injunction stopped there. That was deemed by the court to be enough, in view of the narrow adjudication to preserve the public interest.

And I think that it is clear, therefore, so far as this court was concerned itself, that U.S.G. was perfectly free at all times between 1948, the date of the first Supreme Court decision, and the final decree to charge a reasonable royalty for the use of its patents. And I think the adjudication of illegality, Article IV, must be read in the light of the adjudication of the offense contained in Article III, the offense being a price-fixing offense.

I say that the court was perfectly clear that we could get compensation for our patents in this interim period, because in connection with the Chief Judge's question, this compilation on page 6, the District Court decree of November 7, 1943, after enjoining the further performance of any of the provisions of the patent license—if we turn over the page—ordered us within ninety days to give these people new licenses and said, "You may charge them the same price you charged under the old licenses."

So that device which was later abandoned when these defendants came to meet to agree upon a decree, shows clearly [fol. 1489] that it was contemplated by this court in November, 1949, and as has been shown by Mr. Spray at a much earlier date, that the court knew, realized and was perfectly willing and indeed made it a condition, "If you get rid of the old licenses you can tack on to them a new license for exactly the same amount of money provided in the old license."

Now, if they thought we had misused our patents, that our patents could not be enforced, and we were disenfranchised from using them, would they possibly have made that kind of a performance? I say they would not.

So there is, therefore, no reason to change or expand your decree.

Let us look at it finally in one other aspect. Does anyone at petitioners' table claim that this decree enjoins U.S.G. from suing the Kaiser Aluminum Company which infringed

our patents from 1948 to 1951, but which was not a defendant in this suit? Where do you find that in this decree?

We have a claim against Kaiser, and these papers show it. We have got claims against others, too, not defendants, not parties to this conspiracy at all. But these patents are valuable and the people in the industry, seeing us struggle in the nets of the law, have gone in and disregarded them.

Does anybody say that we are enjoined from suing Kaiser? If so, where do they find it? Kaiser never had a license agreement. Kaiser disregarded us and has infringed our patents.

[fol. 1490] Should this court now anticipate that suit and try to change this decree entered in the public interest to resolve that potential loss? Should we now undertake a trial to determine misuse and purge and see what has happened since 1944 to date?

Why, the circumstances of each of these claims and cases is going to be different. It is unthinkable that this court should assume the burden of trying to anticipate all of the controversies which may come up.

We are suing Ebsary and Newark on patents which may or may not be under the license. There is a dispute between us. And we are suing them for a period of use after the final decree.

Should this court say, "Well, here is another dispute between the parties. We better get into that and resolve that now."

I say this court should not. Being an antitrust court it had no duty to inject itself into any such private area of dispute.

What are the questions that are raised by the pending litigations in the three courts? As I have indicated they are different in each one. They involved different patents. They involved different periods of time. Some after the date of the decree. But essentially they involve the validity of the patents, because our friends are now at this late date saying that our patents have been invalid all of the time.

They involved the question of infringement, whether the processes that they use actually come under the claims of [fol. 1491] our patents. There are many, many affirmative defenses, all of which can be summed up by saying that they are going to contend that we have misused our patents in

some way, and that either that misuse is continuing or its illegal effects are continuing.

Well, that kind of a defense has been raised in dozens of patent infringements and patent licenses ever since the Supreme Court decided the Carbide case in 1931. It was a new doctrine then, but it has become to be conventionally established now. And in almost every patent infringement suit nowadays you see that kind of misuse urged.

It involves the consideration of many facts and a great deal of evidence. That is the question that is pending out there in those suits.

What is the question that the petitioners are urging should be given consideration by Your Honors? What has happened since the decree in May, 1951, which requires reconsideration of that decree by the courts? Well, nothing but the institution of suits whose bringing has been forecast and foretold and discussed since 1948. The Government knew. This court knew. The petitioners knew.

During the last five or six years by the letters we wrote them, by the arguments we made, by the statements we made in court, that it was our position that we were entitled to compensation in some form for their use of our valuable property.

Is there anything new then except the actual implementa-[fol. 1492] tion of our threats by filing the suits? Is there anything new? Does anybody say there is any new violation which has been resumed or created? No.

The Government in appealing, at no time assigned any error to the 1949 decree which——

Judge Cole: Was any reason assigned before the court at the time it took the position that you had the right to such suits in the future?

Mr. Bromley: No, sir, I do not believe there was any argument about it. I do not think that the court felt it was concerned with it, more than to approve the form of license that we offered to the other side, and to say, "That is perfectly legal. You filed it in the court's office and we have read it and we approve it. And it is all right for you to offer it to anybody you want."

There was no discussion beyond what was there. I do not believe there was.

In this proposal that new license for the same old roy-

alty be given was not only made in 1949, it was made by the Government in 1948 in the very first proposed decree; that the old licenses be put to one side and new licenses be immediately taken out eliminating the illegalities at the old royalty.

Must it be said that misuse was adjudicated just because the final decree ordered us to grant licenses to anybody for a reasonable royalty? That compulsory licensing provision [fol. 1493] did impinge upon our constitutional monopoly because, as has been said here, under a patent we have a right to hold it and grant no license, and the court did order us to grant licenses.

Does it follow from that, that that is an indication that the court thought we had misused our patents? It does not. And I think I can illustrate it by Judge Wyzanski's decision in the recent Government suit against the United States Shoe Machinery Company case in Boston.

Judge Wyzanski found that the shoe machinery company violated Section 2 in that it had a monopoly. It had some ninety per cent of all of the shoe machinery business of the country.

The complaint charged that it had aggregated unlawfully and otherwise misused its patents. In his decision Judge Wyzanski absolved the company completely from any charge of any patent misuse, saying this:

"Defendant is not being punished for abusive practices regarding patents, for it engaged in none. Nevertheless, in order to protect the public interest and open the market completely, I order compulsory licensing for five years of its patents."

So the compulsory licensing provision does not create an inference that the patents were misused. The finding here, as in shoe machinery, is monopoly, and it is only natural that the relief, in order to make it easier for potential competitors and new business enterprises to get into this industry, they should be given the advantage of not being barred [fol. 1494] by our patents, because we did have a monopoly.

So I think it will do no good to argue that compulsory licensing in the decree imports misuse.

I still say that the illegality was merely that we had too many licenses with price-fixing clauses in them, each one

by itself being perfectly lawful under the General Electric decision.

Well, Judge Rosenman says, "You ought to expand and enlarge or interpret your decree because it has been done in so many other cases."

Well, as Mr. Spray says, I should think that was a reason operating the other way. If it thought necessary by the court which considered the relief in great detail here in the light of all of the circumstances it would have been put in.

It is true there are many decrees that specifically enjoined the defendants from bringing infringement suits.

There are many decrees which do not enjoin the bringing of infringement suits.

And your decree is such a decree, and I submit should not be changed.

Is there anything to the contrary in the Hartford Empire case? I think not.

In the first place the Hartford Empire case was a completely litigated case on both sides. No summary judgment.

And in the second place, the charge was a typical patent misuse charge, and the proof was a typical patent misuse proof.

[fol. 1495] There was, therefore, a fully litigated dispute on both sides and not a narrow adjudication, but a broad adjudication of complete conspiracy which had been completely litigated.

And when the decree came down there was an adjudication unlike the present case in the decree itself which read as follows:

> "The defendants have contracted, combined and conspired to restrain trade in violation of Sections I and II of the Sherman Act in respect to patents covering inventions embodied in machinery used in the manufacture of glassware."

When you come to look at some of the facts that were found there you find that Hartford Empire had acquired from others over 317 patents; that after acquisition it had shelved the patents and discontinued the manufacture of the patented articles in order to keep its monopolistic grip on the entire glass-making industry.

It was also found that these patents had been acquired

not for the purpose of developing them, but for the purpose of obtaining a more complete control over the industry and of eliminating its competitors.

So that Hartford Empire, far from supporting the petitioners, illustrates graphically the distinction between the narrow offense adjudicated here and the typically broad patent misuse defense adjudicated in Hartford Empire.

There was no patent pooling in the Gypsum case that could possibly be said to resemble anything in Hartford Empire.

[fol. 1496] U.S.G. acquired only two patents. The circumstances of which Mr. Spray has described, not for the reason of restraining competition—there was no such finding—but for the reason as the Government's own affirmative case disclosed that they were caught in a very serious infringement situation, and in order to settle the claims against them, were enabled to work out with the receivers who owned the patents a deal whereby they were purchased for a large sum of money.

In the Hartford Empire case it established that there was a control of prices, of both patented and unpatented products. That was litigated on both sides and was found by the court to exist.

That illustrates another point of distinction in this case.

It is true that the Supreme Court said prima facie the Government established that here, but when we came back to this court and offered to prove it was not true, that plaster prices, being an unpatented product, were always competitive, they were never fixed or controlled or stabilized in any way through the licenses or otherwise, the Government sought to put that issue to one side and make its motion under the rules for summary judgment, merely on the narrow issue that we had too many price-fixing licenses.

So that I say the Hartford Empire case avails the petitioners little, if anything.

But is it possible in any sense to say that this case [fol. 1497] involves a patent misuse? Well, I think I have tried to indicate that in my view it is not possible so to say.

What part did the patents, if any, play in this offense?

I think at worst all you can say is that these defendants

were held to have been a part of any unlawful combination for the purpose of fixing prices. Well, if that is so, is there any doctrine in the law which says to a member of that combination, "You cannot sue somebody who takes your property because you are a member of an unlawful combination?"

Well, the Supreme Court, as Mr. Spray indicated, answered that question in three different leading cases.

The first one was Connelly against the Sewer Pipe in 184 U.S., and it was held there that a customer who purchases goods from an unlawful combination of sewer pipe manufacturers which plainly violated the Sherman Act could not escape paying for the goods simply because he bought from a combination of competing manufacturers, existing and doing business and selling goods contrary to the Sherman Act.

Now later on in the Continental Wallpaper case, it had a variation of the situation. That is in 212 U.S. There was another illegal combination of competing wallpaper manufacturers. And their combination took the form of agreed upon contracts with jobbers by which the wallpaper was sold to the jobber, but on condition that the resale price of the jobber be in accordance with the directions of the com- [fol. 1498] bination, an illegal resale price-fixing case.

And the Continental Wallpaper combination sued a jobber on the illegal contract to enforce its terms and recover from him goods that were sold pursuant to the illegal contract and pursuant to the illegal fixed prices. And the court drew a distinction between wallpaper and sewer pipe, because it said in the one case the combination is seeking to enforce the illegal part of the understanding between the parties.

What are we doing here? Are we asking the District Courts to help carry out any illegal agreement?

We are not suing for one per cent of the price which we legally fixed, for we fixed no price. We are suing to compel these people to pay us on the basis of illegally fixed prices which we say they should have charged for their patented wallboard.

All we want is to get in some form the value of our property which they have used.

And the Supreme Court in the Wallpaper case said this:

> "The present suit is not based upon an implied contract of the defendant company to pay a reasonable price for goods that it purchased, but upon agreements to which both plaintiff and defendant were parties, and pursuant to which the accounts sued on were made out and which had for their object and which it is admitted had directly the effect to accomplish the [fol. 1499] illegal ends for which the Continental Wallpaper Company was organized."

That appears on page 261 of 212 U.S.

That is a fine line of distinction, I quite appreciate, but it is one which will have to be resolved by the District Courts in which our suits are pending. And it is one with which this court need not concern itself if its decree adequately protects the public interest, which I submit it does.

And I emphasize that in these suits we are not suing only on the contract—and I cannot forbear to call to your attention this fact, suppose we had included no count on the contract? Would it have been inconceivable that the petitioners might not have come in and said, "You cannot sue us for infringement, Bromley, or for quantum meruit—we have got a license. You cannot sue us for reasonable value when we have got a contract. And you cannot sue us for infringement when we have got a license."

Suppose they had said that? Does this court think I should have come running in here to you and said, "Look what these people are doing. They are defending on the ground that a contract which you said was illegal is a bar to my quantum meruit."

Well, I would not think of troubling this court about that controversy. And yet in effect that is what they are doing when they come in here and ask you to resolve the questions which are pending out there and which our litigation raises.

I said there were three suits which illustrated this fine [fol. 1500] line of distinction, the Sewer Pipe suit, the Wallpaper suit, and Bruce's Juices which has been so often mentioned here.

Bruce's Juices is a recent case in the Supreme Court.

Judge Worley: That is a five to four decision in that case, is it not?

Mr. Bromley: Yes, sir, I think it was.

It does not make it any the less binding.

Judge Worley: I was wondering if you distinguished such cases.

Mr. Bromley: No, I think that is a good authority for us, your Honor. I think it is good authority for us. Let us try to reduce it to very simple terms.

It is illegal under the Robinson-Patman Act to grant discriminatory discounts. And in Bruce's Juices the manufacturing company had sold to a customer some juice, and the customer had given promissory notes, but had not paid them.

When the manufacturing company sued the customer, my friend Mr. Thurman Arnold said, "The whole thing is illegal. You cannot get your money out of us. You violated the Robinson-Patman Act."

And it came to the Supreme Court. The Supreme Court said this: "If in order to prove his own case a plaintiff proves his violation of law, then no court will aid the plaintiff to recover."

That is at page 756. But the Court went on to say, "That is not the situation here. Because all the plaintiff has to prove here is that he has some promissory notes. They im-[fol. 1501] port consideration. But if the consideration be denied by the defendant, then the plaintiff would have to show only that the cans were sold and delivered to the customer at a stated price. And that is no violation of law."

Now I quote the Supreme Court: "It is only when the Court goes outside of the dealings between plaintiff and defendant and it is proved that the same kind of cans were sold to others at different prices within a relevant period of time amounting to a discrimination, a fact unnecessary to sustain the plaintiff's cause of action, that the basis of the defense asserted here appears."

Your Honors, I think that is pretty appropriate to this situation. All we say is that we want to be paid for the use of our patents. We do not have to rely upon any illegal clause or ask the court in proving our own case to give us relief, even though we prove a violation of law.

Nobody says there is anything wrong about charging a

licensee a royalty, if it is not surrounded by other illegal clauses. And we are not insisting upon any illegality, nor is it necessary for us to prove or assert or rely upon any illegality or any illegal clause of any kind.

So I say that Bruce's Juices is directly in support of our position.

And now I approach the question, if your Honors should think you ought ever to get to it, what about misuse and purge?

[fol. 1502] Well, the petitioners are urging this court to enjoin U.S.G. from enforcing its patents, not forever, just for a period, and that period they say is prior to the date of the decree. But even then they ask you to enjoin only conditionally.

They say, "You enjoin U.S.G. for that period against enforcing its patents unless it can show that its misuse was purged before the final decree."

Well, now, what does that really mean? Have we not already shown in this record that as a matter of law patent misuse, whether it be a tie-in clause in a license or a price-fixing clause in a license can be ended instanter, as it was by us on June 8, 1941, by the sending of a notice withdrawing all price bulletins and from that moment on there were no fixed prices, nor have there ever been since?

I say the misuse can be in almost every case—can be and is—ended at once over night, instanter.

Of course, if somebody shows that in spite of the ending of that misuse adverse competitive effects linger on then maybe the disenfranchisement against enforcing the patent should continue until the court is convinced that the lingering adverse restrictive effects have been dissipated. And that is all purge means.

You end the misuse instanter, and then you approach the question, well, nevertheless, are there not some effects that still linger on from the fact that you fixed prices so long in [fol. 1503] an industry and has not everybody become accustomed to charging the same price? Do you not have to show that they have kind of got psychologically acclimated to free competition?

That is what I think the courts mean, show that the illegal consequences of the misuse are dissipated.

Well, who in this courtroom has yet asserted that there

are any adverse competitive effects or consequences lingering today, or that there were any lingering in 1948 to 1951? I have not heard anybody suggest that. I do not think anybody can suggest it.

I think it has been established by at least six circumstances in this record that not only were there no lingering effects, but if there were they certainly were dissipated by 1948, since price-fixing was abandoned seven years prior thereto. So that if the burden is on us in this court to show a purge, why then we have shown it.

What are the six circumstances that I say established purge as a matter of law before this court as of this present moment with respect to 1948-1951?

Well, they are, first, that everybody knows that we quit fixing prices July 8, 1941.

Well, I suppose my friends will say, "Ah, but you did not take the provision out of the agreement. You had the right to do it. Still in the contract."

Well, so what? We never exercised it.

[fol. 1504] And I was reminded after I got here in Washington of a decision of the Fifth Circuit Court in Whitecap against Owens-Illinois which is in 203 Fed. 2d, not cited in any brief in which that question was considered.

Judge Stone: May I have that citation again?

Mr. Bromley: Whitecap, the name of a company that makes bottle tops, against Owens-Illinois, the glass company.

Judge Worley: That is 203 Fed. 2d?

Mr. Bromley: 203 Fed. 2d, yes.

In that case I presented the misuse defense there, I am sorry to say. In that case Whitecap had a lease which provided for the lease of capping machines for bottles. The lease provided that it was on the condition that the lessee use the caps manufactured by the plaintiff company, an illegality clause under the Clayton Act. I introduced that lease and said it is illegal. They have misused their patents and they cannot sue Owens-Illinois for infringement, but the Court of Appeals pointed out that the existence of the clause was hardly enough, since the evidence showed that they had not enforced it for years.

I rely upon that as authority here.

The mere existence of the clause in the contract, while

sufficient for the Government relief, possibly, does not show that any adverse effects are to be inferred from it. Such adverse effects, if there are any, must be established by affirmative proof and established by the petitioners. And [fol. 1505] the appropriate place to establish is in the court where the question is raised, because there is no evidence before this court as to what the situation was in 1948 or 1951.

Now, second, I think the fact that there is a contention asserted in our sworn answers that these licenses, as a matter of fact, were repudiated by all parties in 1948, and that U.S.G. acquiesced in the repudiation, and the licenses were thereafter treated as non-existent, no action was ever taken to enforce them, I think that fact which is sworn to by us—and that is the only way this court can know about it,—shows again separately and independently that it cannot be said that there were any adverse competitive effects which lingered for a period of from seven to ten years after the discontinuance of price fixing.

And then, too, I think a third fact that is material and establishes purge is that in June 1948, pursuant to a March Supreme Court opinion in 1948, this court declared that these price-fixing licenses constituted a violation of the act. I do not think it is to be presumed that these defendants, in the face of that adjudication, continued their illegality, even though there was no injunction.

And in that connection I call again attention to the fact that the Government asked this court to restrain us by temporary injunction, and that this court said, "Why, there is no need for that."

This court knew we had stopped price fixing in 1941. This [fol. 1506] court said, "There is no need to enjoin these people even temporarily. If you, Mr. Government, find out they are doing anything wrong we are right here in Washington and you come right in and tell us and we will stop it."

And, fourthly, I think the fact that so often and so frequently, for so long a time, new licenses without any illegalities were offered to these people who are now trying to get out of paying for the use of our patents, indicates a purge.

We never had any intention after 1948 to insist upon any illegality. We were perfectly willing to give them licenses

without price fixing, without any possible illegal clauses, and continued so. And the record shows repeated offers.

I refer specifically to transcript at 8,257, where, on June 14, 1949, before this court, Mr. Connelly of my office in argument informed the court that he was offering licenses to all of these petitioners and they could take them for one patent or two patents or three patents, and they could have them in separate instruments or any way they wanted them. I think that is an important factor which establishes as a matter of law that there is nothing to this contention that we must now come in and show all over again that we were purged by 1948.

It is a minor point, but the decree of November 7, 1949, was actually in effect for more than 60 days while the Supreme Court stated and probably on our motion, that there was no hurry about getting a stay, and for some [fol. 1507] reason which I cannot now recollect we did not even apply for a stay for some 60 days, so that that decree was actually in effect for more than 60 days. And it will not be presumed as the Supreme Court said in the recent Timken case that the defendants violate orders, decrees of our courts and, as Mr. Justice Reed says, "Experience has shown that by and large they do not" and that is why there are so few applications for punishment for contempt. And I think it is of great significance here that the Government makes no contention that we are in contempt of any decree and does not ask you to bring us to book for any such contemptuous action.

And, again, and this illustrates the nature of the many questions that will come up in the District Court, it should not be forgotten that on May 29, 1950, well within this 1948-1951 period, the Supreme Court itself issued another injunction which was never stayed at any time thereafter, and that injunction, as Mr. Spray has said, enjoined us from enforcing in any manner whatsoever the price provisions of the license agreements. And it will not be presumed that any time thereafter we ever violated that order. And no contention is made that we ever did.

So what are these alleged illegal effects that are supposed to linger on? I suppose according to Ebsary and Newark they are still lingering on, because they do not even want to pay us for their use of our patents after 1951, after the

final decree. What are they? Where are they? Is it not a matter which is more appropriately considered dispute by dispute?

[fol. 1508] Even though it involves three District Courts instead of one, those judgments are all subject to review, and if there is any conflict in them under well accepted principles the Supreme Court can resolve the conflicting decisions.

And I say then that our inter-company fight should be left to the jurisdictions where they are brought. This court should not be bothered with them.

Two of these suits are pending in Iowa where there is only one judge, the two most important suits, and I guess he is not apt to be in conflict with himself.

The other two suits, one in New York, and one in New Jersey, were likewise brought where the plants are, so that it will be easier to assemble the evidence of infringement and just what processes were being used. So that I do not believe there is any reason based upon the avoidance of multiplicity of suits why this court should undertake the very considerable task, it seems to me, of trying to determine whether the court when it issued this decree should have made it broader than it was. I think this is a situation where multiplicity of suits is appropriate. And this certainly — not the only court which can afford full and complete protection to these plaintiffs against our claims if they are entitled to any protection against it. All these people want is to get a quick order which will relieve them from paying just compensation for the use of our patents to which we are clearly entitled.

[fol. 1509] I think their applications, therefore, may it please your Honors, should be denied.

Judge Stone: Have counsel for United States Gypsum finished their arguments?

Mr. Bromley: Yes, your Honor.

Judge Stone: The court will recess until 2:00 o'clock.

(Whereupon, at 12:55 o'clock the court recessed until 2:00 o'clock.)

[fol. 1510] AFTERNOON SESSION

2:00 p.m.

Judge Stone: Are the petitioners ready to present their hour of rebuttal? I see they are.

Mr. Rosenman: Might I inquire of your Honor whether we can use some of our unexpired time on argument in chief for rebuttal, or will we be held to an hour strictly?

Judge Stone: I should think you would be held to the hour, Judge Rosenman, because that was the arrangement in advance.

Mr. Rosenman: I see.

Judge Stone: But you may divide, of course, that as you see fit among counsel.

Mr. Rosenman: Yes. We have arranged that.

REBUTTAL ARGUMENT ON BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman.

Mr. Rosenman: Counsel for U.S.G., Your Honors, made a very significant statement when they referred to the change of position which the licensees have taken, and we confess that we have changed our position, and I think that that is perhaps the main distinguishing feature between this side of the table and U.S.G., that we have changed our position from what it was when the suit was brought, and the reason that we have is that the Supreme Court has spoken. It has spoken twice. It has overruled the positions which we took during the preceding proceedings, [fol. 1511] and has laid down definite statements of adjudication and definite statements of prohibition, and we have read those decrees; we have read those opinions, and we have decided that we have to abide by them.

To that extent, we have changed our position. We think that the United States Gypsum Company has not changed its position with respect to the arguments which it made way back in the trial of the case, which it made at the time of the remand, and which it made at the time the findings and the decree were entered into, and which it made all the way through the appeals. They are still, through the persons of Mr. Spray and Judge Bromley, riding the same horse

which they did then, that the only thing that the Supreme Court has found has been this one narrow adjudication that the price-fixing provisions for patented board were illegal, and that is all that the Supreme Court was interested in, and that is all that they found, and that so far as the other facts are concerned, they accepted the facts as laid down in the proffer made by U.S.G.

Now, the fact is, your Honors, and the opinions show it very clearly, that the United States Supreme Court did not accept these proffered facts. They went forward and made other findings. They did not do them in the formal form of findings, but as this court below understood what they were saying in their decision, in their opinion, it was to the effect that there were facts found of an abuse of patents, a misuse [fol. 1512] of patents, and above all, a complete regimentation of this industry and an organization of the industry in order not only to restrain prices but to restrain and prevent competition in methods of distribution, in methods of transportation, and in the customers that they would have, and they also found that there was a monopoly.

Now, a monopoly is not created merely by the fact that people fix prices. Monopoly is a result of many things, and those things were found by the Supreme Court of the United States.

Judge Bromley in his argument said that the one thing that he could not controvert when the case came back for remand was six pieces of paper which fixed the prices in the industry. Now, there were some other hundreds of papers which Judge Bromley, astute and capable as he is, could not deny, and those were bulletins which had been issued regularly by U.S.G., and those bulletins prescribed a great many things, and they are all discussed in the first opinion of the Supreme Court. They described methods of distribution, and I will take one of them up particularly. They prescribed whom you were going to sell to, and at what price, and they prescribed that the price of unpatented products would be fixed, because if they were cut, they might be construed as rebates on the price of the patented products.

So what the Supreme Court did in its decision was to take these bulletins as incontrovertible evidence, and they were all admitted on the so-called prima facie case, and

they said that, admitting the underlying facts of this case, [fol. 1513] namely, this incontrovertible evidence, and rejecting, as they did, all of the conclusory evidence, and stating that we did not intend to do anything contrary to the antitrust laws, and excluding all the protestations of good motives, that all we did here was to protect our legitimate patent monopoly, the Supreme Court said, excluding those conclusions and those statements of intention and those statements of good motives, but accepting what they called the underlying facts—and the underlying facts were the conceded facts, these agreements, these bulletins, the testimony of the defendants themselves on this so-called prima facie case, and we should bear in mind that although this technically was a prima facie case, many witnesses who were officers of the defendants had been called by the Government and had been examined and had been cross examined by counsel for the then defendants, so that although this was a prima facie case, the Supreme Court had enough before it to make findings of fact in the form of its decision, which it did, and those findings of underlying facts were never disturbed. They were never disturbed below, although Judge Bromley urged that they be disturbed and changed, and although the proffers of proof were entirely to the contrary, and they were never sustained all the way to the Supreme Court.

Now, why did the Supreme Court make these findings? Nobody urges, and I am sure Judge Bromley would not, that they made these findings without any evidence. Certainly those findings are binding on us. They made those [fol. 1514] findings because those findings showed a misuse of the patents which required a broadening of the decree, a broadening of the decree which had been brought up to it.

In the first opinion, it made those findings and reversed the findings below in order to reverse the judgment below.

In the second opinion, it made those findings in order to justify a broadened decree.

Now, it could not be, your Honors, that if the court simply found a plurality of licenses with price-fixing provisions, that they would have enlarged the decree to the extent that they did. I am going to ask your Honors' indulgence to take a look at the history of this decree by examining this

document with me, and that is why we think this document will be helpful to your Honors.

In the first place, I will call your Honors' attention to page 2. You will see in the second column there, this is the U.S. Gypsum's original proposed decree, which was submitted after the remand, and if you will look at Article II, it defines "Gypsum Board."

Now, when we come to the adjudication, the definition of "Gypsum Board" is very important. As it is defined here, it says it is just merely gypsum board.

The District Court decree, though, the next column, used the same definition of "Gypsum Board."

Now, when it got up to the Supreme Court, "Gypsum Board" is defined the same way—I am sorry your Honors. [fol. 1515] In the earlier decree, in the first column on page 3, "Gypsum Board" is defined only as gypsum board which is manufactured pursuant to patents. Do your Honors find that? The District Court decree of November 7th.

Judge Stone: Yes.

Mr. Rosenman: It says that "Gypsum Board" is only gypsum board which is made from gypsum embodying any of the inventions or improvements set forth and claimed in any of the patents.

Now, when it came up to the Supreme Court, they took out that restriction of patents, so that "Gypsum Board" is defined in the decree as any kind of board, the open-edge board as well as the closed-edge board, so that when we come to the adjudication, there is a vast difference between referring only to patented board and referring to unpatented board as well as patented board.

Then your Honors will notice in the first column on page 3, which is the District Court decree, there is no mention of "Gypsum Products," and that was because the District Court found no violation with respect to gypsum products other than gypsum board.

If your Honors go to the last column, which is the final decree, you will find that "Gypsum Products" are defined, and they are later included in the decree.

Now, the next definition is the definition of "Patents." Your Honors will see in the column under the District Court decree of November 7, 1949, that is the first column [fol. 1516] on page 3, that "Patents" are defined merely

as patents, but when you come to the final decree, they are defined not only as the patents which U.S.G. then owned, but they are defined as the patents which they will acquire within a period of five years from the date of the decree. That is in Definition 4.

Now, if we turn to page 4, if you look at the second column on page 4, we will see clearly expressed what U.S.G. was urging the only violation was. In Article III—this is the adjudication—U.S.G. was urging then upon the District Court, after the first reversal, and on remand, that the adjudication should read, "The defendant companies, by adhering to the minimum price provisions of the patent licenses in an entire industry with knowledge of the adherence," et cetera, "that they have restrained trade in violation of Section 1."

Now, that is what they claimed then, and they are still claiming it.

If you go to the District Court decree of November 7th, they went a little further. They did not quite go along with U.S.G., because they said that they have acted in concert in restraint of trade and commerce to fix, maintain and control the prices of gypsum board, and they added, "they have monopolized under sections 1 and 2." But the word "gypsum board" is subject to the definition to which I called your Honors' attention. On page 3, it is only "Patented Board."

Now, when the Government appealed from that finding, [fol. 1517] the Supreme Court adopted the Government's contention, and although, as Mr. Spray has said and Judge Bromley has said, there was no broadening of the language of the adjudication, and that is true, if your Honors will read on page 5, column 1 and column 3, they appear to be the same, but the important thing is that in column 3, when the final decree was signed, "Gypsum Board" no longer means only patented gypsum board. It means patented as well as unpatented gypsum board.

Now, the reason for that, your Honors, was that the Supreme Court had made certain findings, and they were not making findings just for the sake of making findings. They were making findings in order to determine what was wrong with the industry, and above all, what would have to be done in order to cure the ill effects of this misuse. So

they included these findings to include unpatented as well as patented board.

Judge Cole: You mean that "Gypsum Board" on page 4 in column 2 has a different meaning from "Gypsum Board" on page 5?

Mr. Rosenman: I say, column 2, page 4, has a different meaning, yes, sir, I do, because the definition—you have to go back to the definition of "Gypsum Board," and if you go back to the definition of "Gypsum Board" in that column which is on page 2— Judge Cole, did you ask me about the second column on page 4?

Judge Cole: Yes.

Mr. Rosenman: Well, the definition of that in the second [fol. 1518] column on page 2 is: "Gypsum Board" means only patented gypsum board. That is also true of the first column on page 3 and on page 5. But when we come to the final decree, the final decree defines "Gypsum Board" in a way which would include unpatented gypsum board, so that, although the actual language of the adjudication reads the same in these columns, the fact is that in the final decree, "Gypsum Board" means unpatented as well as patented gypsum board, whereas, in column 2 and in column 3, it means only patented gypsum board. That was because the Supreme Court found that there was an attempt to fix prices, a plan to fix prices on unpatented gypsum board as well as patented, and that production of unpatented gypsum board as well as patented gypsum board was restrained.

Now, if we continue in this decree to show how it was further expanded by the Supreme Court, if your Honors will turn to page 7, the first column on that page is the original District Court decree. Judge Stone asked the question about what happened to that subsection 1 there. You will see that this is the injunctive provision of the decree. I skipped Article IV because that is the same except as to what U. S. Gypsum was urging.

So with apologies, I ask your Honors to turn back to page 4, to look at Article IV. Your Honors will see that what U. S. Gypsum was urging before the District Court is set forth on page 4, the second column. This is U.S.G.'s original proposed decree submitted to the District Court. [fol. 1519] It says, We want you to find that, "the minimum price provisions of the Patent Licenses are hereby declared

to be illegal," and the licenses are canceled and terminated.

But what it is asking to be determined illegal is what it has always claimed and what was claimed before your Honors today, that the only thing that was illegal was the provisions of the patent licenses. And they asked that that be the entire adjudication, and they are still asking that in effect by urging that that is all that was found.

However, the District Court in its first decree rejected this proposal and found that the license agreements had been a-judged unlawful under the antitrust laws of the United States, and that they were illegal, null and void, and that continued right through until the final decree.

But what U.S.G. had urged originally was based on what it is still urging, that the only thing found illegal was the minimum pricing provisions.

Now, if your Honors will turn to Article V, this is the injunctive provision of the decree, and this is the provision which was prospective. The court had already acted with respect to the existing agreements and declared them null and void, and now it is looking to the future, as to injunctions and what should be done in the future. Judge Stone asked—and if you look at the first column on page 7, you will see subsection 1—about the further performance, or [fol. 1520] enforcement, of any of the provisions of the patent license. Now, if your Honors will look at the next column, the second column on page 7, which was what the Government submitted to the Supreme Court on appeal, that has disappeared there, and therefore, in the final decree it does not exist, either, so that where that disappeared was apparently when the Government submitted this to the Supreme Court, and the Government explained why that was left out, and that explanation has been submitted to your honors several times yesterday and today. He argued before the Supreme Court that it would be only painting the lily to include what is contained in column one on page 7 about enjoining the further performance or enforcement if, as a matter of fact, you declare the whole thing null and void, and because he was asking the Supreme Court to declare the whole thing null and void, he did not think it would be necessary, and that, as he said it, it would be painting the lily to include it in the final decree. So it was not in the final decree.

May I ask your Honors to look at the final decree, Article V? It does not restrict the defendants from fixing, maintaining or stabilizing prices alone, as I think Judge Bromley said it did. It goes much further than that. It says, We want to restrain you not only by patent licenses, but by "other acts or courses of action." They want restrained not only the prices, but also "the terms or conditions of sale."

Now, the terms or conditions of sale had been laid down by the hundreds of bulletins which had been issued, and [fol. 1521] those too were being restrained by the Supreme Court.

Then there are four specific things that are restrained. Now, each of those four specific things has a definite relation to some of the findings which the Supreme Court made, namely, that they had eliminated jobbers, that they had regulated transportation by a delivered price system, and that they had come in and policed our books, and all of those things were further enjoined, so that on the basis of what the Supreme Court found in its first and second decisions, it had completely broadened the decree, and I just do not understand how U.S.G. can come here and say that in spite of that, all that the Supreme Court found was that there was some small illegality in these licenses.

Now, Judge Bromley has stated, and we agree with him, that the function of this court is to protect the public interest, and that is what we thing we are asking. It is traditional in antitrust cases involving patents and royalties for the antitrust court to protect the public interest by insisting that because of the misuse doctrine and in the public interest, and in behalf of public policy, that the malfactor who is the owner of the patent be forbidden from recovering for the use of his patent, and both briefs contain many cases to that effect.

Now, we do not know what the facts are in the Kaiser case that Mr. Bromley spoke about. We do not know what the facts are in the Ebsary case and the other cases, except this, that we know that the only thing we are asking is that for [fol. 1522] the period of the misuse of these patents—and we urge that the misuse continued right until the final decree—that for that period, public policy demands and the public interest requires that the misuser of the patents

be forbidden from recovering for the use of the patents.

That has always come up whenever antitrust cases have considered the questions of misuse of the patents, because as a part of that consideration, there has always been the question of adjusting the royalty disputes between licensors and licensees; and there is nothing unusual in having the antitrust court act in that kind of umpire capacity, because in the Hartford Empire case and the National Lead case, a part of the decree consisted in adjusting the royalty disputes by saying that you cannot bring an action for infringements or for royalties for any use prior to the final antitrust decree.

Now, Judge Bromley insists that the cases hold that even if there is a misuse, that itself, even that, does not necessarily preclude recovery of royalties, and he cited the Connolly case, the Continental Wall Paper case, and Bruce's Juices in discussing that situation. We disagree with Judge Bromley's distinction between those cases.

The Connolly case, when your Honors come to read it, is a case where one member of a conspiracy proceeded to sell to an outsider, and the outsider resisted payment of the price on the ground that there was a conspiracy, an antitrust [fol. 1523] conspiracy, and the court held that you as an outsider—this is a transaction entirely apart from the conspiracy—you have no defense.

To make our case analogous to the Connolly case would require a situation where National Gypsum, for example, sold some gypsum to the XYZ corporation, and the XYZ corporation defends on the ground that you, National, are part of an illegal conspiracy. Well, the courts will hold, and they did hold in the Connolly case, that that defense is no good. And obviously it should not be, because the illegality is not a part of this sale on the basis of which the suit was brought.

Now, this is not the Connolly case; this is similar to the Continental Wall Paper case, in which the vendor and the vendee were each members of the same conspiracy, and the court in the Continental Wall Paper case distinguished the Connolly case very clearly on that ground and said that the defense of antitrust violation is a good one in the Continental Wall Paper case, and they sustained the demurrer.

Now, Bruce's Juices was a case of a Robinson-Patman violation, and there they held that where A sells to B at a price different from the one at which he sells to C, that B cannot raise the defense because there is nothing illegal in the contract between A and B. What makes it illegal is consideration of the contract between A and C, and the price of A and B might be different from the price between A and C. But the court said that there is nothing illegal in the [fol. 1524] contract between A and B and therefore we will enforce it, which is entirely different from this situation, and the court in Bruce's Juices said very clearly that the doctrine of the Robinson-Patman Act cannot apply to an antitrust violation, and that the rule in the antitrust violation cases is entirely different.

Now, I would like to take up in the few minutes left to me the facts upon which U.S.G. apparently relies in showing that there was a purge, and those are discussed in our brief, but there are some things that were said yesterday and today that I would like to call particular attention to.

It was stated and emphasized time and again that in 1941, the price fixing was stopped, and that the bulletins — no longer issued. Now, the brief showed a quote from the letter which stopped the price fixing, and that letter had in it expressly a reservation that they could reimpose the price provisions any time they wanted to.

Now, it is true, they never did, but none of us, none of the licensees, ever knew when or where or how they would, and we never knew, if we ever reduced the price, whether or not U.S.G. would ever clamp down on us and say, "You have violated the license."

That is particularly a formidable thing when we consider some of the provisions of the bulletins. I want to call your attention to one provision to show you how ephemeral it is to say that there was purge just by reason of the fact that [fol. 1525] they did not send any more bulletins out.

Some of those bulletins that they used to send restricted our right to deliver by trucks. Now, that was a part of the general scheme of a delivered price system, so that every customer would be paying the same price. That was a very complicated thing, and one of the means they had of enforcing it was to regulate how we could deliver by trucks.

There were some areas we could and some areas we could not. Now, suppose we had relied on the fact that they did not issue these bulletins any more, and had gone out and bought a fleet of trucks in order to deliver. The very next day U.S.G. could have said to us, "You have no right to use those trucks. So far as we are concerned, it would be a violation of the license agreement if you do," so that we could not rely upon the fact that they were no longer carrying on these procedures which were later declared to be illegal, in so far as the purge is concerned, the cases show very clearly that the mere fact that you have discontinued without committing yourself to discontinue any of the illegal provisions, does not constitute a purge.

Now, the cases cited in U.S.G.'s brief do not bear out their contention that the mere fact that they discontinued the use of these bulletins or discontinued fixing prices is a purge. There are cases which hold that if you never do enforce, if you never have enforced, any of the price-fixing provisions or any of the illegal provisions, if they have in fact become [fol. 1526] a dead letter, so that the parties can say that they have really been abandoned, that they have never been enforced and never have been put in use, that that might constitute the basis of a purge. But there is nothing like that in this case. They were used for 15 years or more, and there was never any indication to us as to whether or not they would be used again, and I repeat that the letter saying that they would not be used had in it a complete reservation of the right to reinstate the prices any time that they wanted to.

Now, the second thing on which they rely for purge, as Judge Bromley put it today, is these licenses, which were offered in conjunction with the first decree. Now, it is very important to take a look at those licenses, even though in fact they were stayed, because the whole decree was stayed. The contention is that those licenses were unobjectionable. Now, the fact is that those licenses not only were not unobjectionable, but the fact is that the Supreme Court in its decision and the final decree by its terms provided for entirely different kinds of licenses which contained provisions which were not in the 1949 suggested licenses.

Just to mention a few, and perhaps the most important, if your Honors will examine the decree about compulsory

licensing, it is provided that the licenses hereafter are to be available to anybody who asks for them at any time.

The license provisions of the 1949 decree provided that [fol. 1527] anybody would have the right within 90 days to ask for a license. That was extended. The 90 days was struck out, and that is terribly important with respect to purge, because it is one thing to say that anybody who comes in now within 90 days can get the license, but it is quite another thing to say that anybody 16 years from now can come in, any new enterprise, any new corporation, can come in 16 years from now anytime during the life of the patent and have a right to demand that patent.

That was the kind of license which was finally compulsorily issued, rather than the license of 1949, so that it is meaningless for U.S.G. to contend that in fact the licenses of 1949 constituted a purge.

The next fact which was relied upon was the fact that there was a rescission of the old license agreements. Mr. DeWitt will show that that claim of rescission cannot possibly be sustained, but even if it were, the Supreme Court here has held that rescission of the old license agreements was not enough, and the form of this decree shows what the Supreme Court thought was necessary in order really to constitute a purge, and mere rescission of the license agreements has been held by the Supreme Court not to constitute a sufficient purge.

The last fact relied on is this interim order of the Supreme Court enjoining U.S.G. from enforcing the price-fixing provisions of its license agreements. That cannot constitute a purge, because the Supreme Court held that that [fol. 1528] is not enough, that the price-fixing provisions, even if they are eliminated, do not constitute the misuse here, but that the misuse consisted of all these other things, of regimenting the industry; and withdrawing the price-fixing provisions would not be enough to constitute a purge, so that as a matter of law, we ask your Honors to hold that there could not have been a purge of the misuse of the patents found by the Supreme Court until the final decree, to use Judge Bromley's language, dissipated the evil effects and opened up the whole industry to free competition. And that was not done until May 15, 1951.

I have a number of other miscellaneous statements which

I would like to answer, but I want to leave time for my colleagues in rebuttal.

Our main point, your Honor, is that nothing has been shown here by U.S.G. to justify the position which they take, which they took six times, and which was overruled, that all that happened here was this slight, this narrow violation of law. The violation of law here was as broad as the decree, and it took a broad decree, a decree as broad as the one here, to dissipate the evil effects of this restraint and this monopoly, and until that happened, as a matter of law, there can be no purge.

Judge Stone: Pardon me, Judge Rosenman. When you spoke of the injunction just a moment ago, you meant that by the Supreme Court in 339 U.S.?

Mr. Rosenman: I am at a loss to remember which in-
[fol. 1529] junction I spoke of.

Judge Stone: You spoke of the injunction, as I understood you, which U.S.G. relied upon as a purge.

Mr. Rosenman: No. They rely upon the intermediate order of the Supreme Court after both parties had appealed from the November, 1949, decree. Your Honors will recall that U.S.G. appealed and the Government appealed. The U.S.G. appeal was dismissed, and probable jurisdiction was noted of the Government's appeal. Now, at that time the Supreme Court made an order. It is in 339 U.S. 959-960. That is right.

Judge Stone: Thank you.

Mr. Rosenman: I thought you said 333 U.S.

Judge Stone: No. I meant to say 339 U.S.

Mr. Rosenman: It is 339 U.S. That is right.

Rebuttal Argument on Behalf of Newark Plaster Company

By Mr. DeWitt.

Mr. DeWitt: If the Court please, the inescapable fact in connection with this litigation is that this court made a final decree on May 15, 1951, in Article IV of which it said, in the plainest language, that the license agreements enumerated in Article II of the decree were unlawful, illegal, null and void.

The simple and fundamental question, it seems to me,

which is before your Honors in this proceeding is whether or not U.S.G., in bringing the lawsuit against Newark, in [fol. 1530] New Jersey, and against these other defendants in other jurisdictions, is thwarting, evading and disr-garding this court's decree.

The simple way to find out whether the action in New Jersey, for example, is designed to thwart and circumvent this court's decree is to examine the complaint in that action. In count 1 of that action, U.S.G. seeks to recover for the breach of the license agreement which this court has specifically declared illegal, null and void. As I stated earlier, for U.S.G. to tell the District Court in New Jersey that an agreement is valid and enforceable when this court has said specifically that it is illegal, null and void, is in my opinion a deliberate attempt to destroy the integrity of the decree of this court, and should not be permitted.

Count 2 of that complaint alleges, as I understand it, that Newark and U.S.G. amended the license agreement and then agreed to carry out that license agreement as amended. We are dealing there, therefore, with an attempt on the part of U.S.G. to enforce this illegal and void agreement as partially amended.

That, it seems to me, is a clear effort on the part of U.S.G. to thwart this court's decree.

Now we come to Count 3, and it is to that count that I wish especially to address your Honors' attention at this time. I had supposed, because Count 3 was referred to as a quantum meruit count, that what was intended by U.S.G. was to claim that even if it could not recover on the con-[fol. 1531] tract itself, it could recover on quantum meruit. Your Honors will recall that I suggested in my earlier argument that where an effort is made to recover on a transaction which is the subject matter of a contract which has been declared illegal, null and void, that action will not be permitted. The agreement is void, and action on quantum meruit relating to the transaction covered by the agreement cannot be brought.

Judge Worley, your Honors will recall asked Mr. Spray this morning whether he agreed with that statement, and as I recall Mr. Spray's answer, he said that he had no quarrel with it. But what U.S.G. apparently seeks to do in Count 3 is to urge that they rescinded the license agree-

ment on which they are suing now under Count 1, that that agreement, therefore, completely passed out of the picture in 1948, and that therefore, they are suing on a completely new transaction utterly unrelated to the transaction covered by the license agreement.

Now, I contend that for this court to permit U.S.G. to advance that argument to a court in Newark is to circumvent, evade and flout the decree of this court, because throughout the litigation, far from contending that this agreement and the other agreements were rescinded, U.S.G., by word and conduct, has told this court repeatedly that these agreements were not rescinded, and they should not permitted, after telling this court repeatedly that they were not rescinded, to go into a court in Newark and say directly to the contrary.

[fol. 1532] Now, I say that they told the court expressly that these contracts were in effect. Your Honors will find, at pages 36 and 37 of the brief of National Gypsum Company, the colloquy that took place between Mr. Knuff and Mr. Connelly, who at that time spoke for U.S. Gypsum. Your Honors will note at the top of page 36 that the date on which this colloquy took place was June 13, 1949, which is a year after, in Count 3, this complaint of U.S.G. says these agreements had been rescinded. One year after they says the agreements were completely rescinded, this is the colloquy that took place:

The question was as to what agreements should be included in the list of agreements that were to be specified in the decree that was to be made; and Mr. Knuff, representing the Government, was anxious to know whether the list covered all of the agreements or whether there were some agreements that he had missed. You will notice that Mr. Connelly, toward the bottom of page 36, says: "Now, with reference to that list of patent license agreements, counsel for plaintiff"—that is the Government—"has stated here that it is entirely agreeable to him that that list of licensees"—it should be "licenses"—"be incorporated provided that it can be certified that these are the only agreements in effect between the parties."

You will notice at the top of page 37, after they had agreed that they would add to the language any amendments or supplements thereto, Mr. Connelly there stated,

[fol. 1533] "and any supplement or amendment to any of said patent license agreements. With that addition, the list is all-inclusive and the certification requested may properly be made."

They did not tell the court then that there was no need to include these agreements in the list that they had rescinded. On the contrary, they told the court that the agreements were then in effect.

Now, in 1949, when we were arguing before this court with respect of what should be included in the decree, much of the time was taken over the question as to whether there should be included this provisions that these agreements were illegal, null and void. At that time, U.S.G. argued that the only things that should be stricken from the agreements were the price-fixing provisions. Now, what agreements were they talking about in 1949, if, as they now allege in Count 3, these agreements had been rescinded in 1948? Either they had not been rescinded or they were trifling with this court in taking up the time of this court with respect to provisions relating to contracts which were no longer in effect but which, as they now claim, had been completely rescinded.

[fol. 1534] In the final decree of 1951, your Honors will find listed these very agreements. No suggestion was made to the court at that time that there was no need to include these agreements, that they had all been rescinded. They were treated by everybody as not having been rescinded. There was no suggestion of any rescission.

As recently as yesterday, Mr. Spray, at page 129 of the stenographic minutes, said:

> "On March 8, 1948, when the Supreme Court rendered its first decision reversing Judge Stephens and his colleagues in their order of dismissal, it came as quite a shock to the whole industry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.
>
> "The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.
>
> "U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status

quo during that period there as far as taking any action."

There is no suggestion there that the license agreements had been rescinded.

In the very action in New Jersey, far from claiming that [fol. 1535] they were rescinded in the first count and in the second count, U.S.G. sues upon these agreements as being effective. Even today they sue upon them as valid existing agreements and not at all on the theory that they had been rescinded.

Now, I appreciate, of course, that it is possible to take inconsistent positions, and in different counts of a complaint to set up different theories. But it seems to me that where U.S.G. has repeatedly represented to this court by their counsel, by their conduct, that these agreements were not rescinded, but continued, that this court cannot permit U.S.G. to go into different parts of the country and tell these District Courts that these agreements were rescinded.

Now, the purpose is obvious. They are trying to get away from the difficulty of suing on quantum meruit. They realize that they cannot sue on quantum meruit unless they can in some way appear to clear the decks of these invalid agreements. They know that where the agreement is void, you cannot sue on quantum meruit. They recognize the doctrine that is set forth in Bruce's Juices and in Williston's and in Restatement of Law. But to avoid that, to circumvent that, they claim that there was a rescission, and thereby think that they can get the contracts out of the way and proceed as though the transaction had nothing to do with these contracts.

That, it seems to me, is a clear evasion of this court's decree and should not be permitted.

[fol. 1536] Now, we have had some discussion as to what took place before this court with reference to the purpose and the effect of the inclusion in the November, 1949, decree of the provision to the effect that these contracts were illegal, null and void, and it was suggested here, first, that Mr. Dallstream spoke for all of the defendants, petitioners here, and in speaking for them, that he said that nobody had as his purpose the evasion of the payment of royalties, that nobody sought to be excused from paying royalties.

Mr. Dallstream did not speak for Newark; he did not speak for Ebsary; and so far as I know—and I was there and participated—he spoke for Mr. Dallstream. There could have been no doubt whatever, and there was no doubt whatever, with respect to where Newark stood with respect to the purpose and the effect of that provision.

I not only made an oral argument, but I also found a memorandum at that time, and in that memorandum I urged the court to include this provision, to the effect that these agreements were illegal, null and void. As I told your Honors in my earlier argument, Newark had bought into a lawsuit, and we recognized that the Supreme Court had found that there was a conspiracy, that the whole thing was illegal, and it seemed to me that this court in its decree should use plain language so that we would all know where we were.

So I urged the court to include a provision in the clearest [fol. 1537] language stating that these license agreements were illegal, null and void.

Now, U.S.G. suggests that they did not understand at that time that they had any purpose of avoiding payment of royalties or that the effect of this would be that they would not pay any royalties, but they understood very well at the time, and they said in their memorandum on July 25, 1949, from which I have quoted on page 11 of the Newark brief—now, this is not what Newark says. This is what U.S.G. says about their understanding of the effect or the purpose of this provision:

> "Newark seeks a provision that each of the license agreements be adjudged unlawful under the antitrust laws and illegal, null and void, which not only goes beyond the scope of the determination by this court on the motion for summary judgment, but has for its purpose an attempt to be relieved from accounting as stated before in this memorandum."

The court read that memorandum. The court, therefore, knew what U.S.G. understood to be involved and what Newark understood to be involved, namely, that if the court included the provision to the effect that these contracts were illegal, null and void, these defendants could not be called

upon to pay royalties because U.S.G. could not enforce a void contract.

Judge Cole: Was there any suggestion that that be spelled out in the decree?

[fol. 1538] Mr. DeWitt: Except to the extent already indicated, that that was what U.S.G. understood.

Judge Cole: I understood that. You did not go beyond that, or anyone, and suggest that they spell it out in so many words in the decree?

Mr. DeWitt: We did not think so, your Honor, because we thought it was elementary, and I still think it is elementary, that you cannot recover on a contract which is illegal, null and void. If you search the lexicon of legal terms, you cannot find language which more completely condemns a document than the language which the court used here.

Now, to say in terms that a document that has been pronounced illegal, null and void will not support a lawsuit would have not occurred to me. Certainly the three learned judges who sat, and certainly counsel and everybody else thought as a matter of course that nobody would be allowed to enforce a document which the court had pronounced illegal, null and void. It was unthinkable. Everybody concluded that that would follow. That was what the discussion was about. That is why, of course, U.S.G. struggled to have the provision limited merely to the price-fixing provisions.

There was no need to spell out what we all thought was a perfectly obvious proposition. But the point I am making is that U.S.G. understood and declared to the court that it understood what this was about, that it would relieve, or [fol. 1539] at least Newark supposed it would relieve, as we did, from any obligation to account for royalties.

It seems to me in all of this proceeding, attention should be focused not upon the question of what benefits these defendants may derive or what detriment U.S.G. may suffer. The simple, elementary question to me is, Is this court going to compel respect for its own decrees? Is it going to make a decree holding agreements illegal, null and void, and sit back and allow a litigant to tell courts in different parts of the country that those very agreements are enforceable and lawful? Is this court going to sit by, after it has been told repeatedly that these contracts had not been rescinded

and allow the very people who told this court that they were not rescinded and who acted on the theory that they were still in effect—are they going to allow them to go to different courts in the country and tell those courts that what they told this court is not true, that those contracts really were rescinded? And for what end will they say that? They will say that in order to escape the consequences of a suit on quantum meruit based on an illegal transaction.

It is a device merely to escape the consequences of these illegal and void contracts. The transaction remains the same. They are suing for the same amount of money, and it is exactly as if they tried to sue on quantum meruit without rescission.

Judge Worley: Mr. DeWitt, in fairness to Mr. Spray, [fol. 1540] I am not sure that he took the position that you indicated he did in answer to my question.

Mr. Spray: I did not mean to.

Judge Worley: I did not think so.

Mr. DeWitt: I thought Mr. Spray said he had no quarrel with that position. I may have misunderstood him.

Judge Worley: Maybe I did.

Mr. DeWitt: I thought he said, "I have no quarrel with that position." I may have misunderstood him, but I thought that was what he said.

Mr. Knuff: May it please the court, I notice by the clock that the hour has expired, and I had about a minute or two minutes in which I wanted to say something. If the court feels I should be allowed to say it, all right; if not, I shall sit down.

Judge Stone: Yes. We will hear you for a few minutes, Mr. Knuff. The only purpose of the limitation is to divide opportunities fairly between the parties.

REBUTTAL ARGUMENT ON BEHALF OF THE UNITED STATES

By Mr. Knuff

Mr. Knuff: May it please the court, the Government's present contention, and the relief for which we pray, are simple and concise. The court's ruling on our petition will involve nothing more than a determination as to the force and impact of Article IV of the May 15, 1951, decree. [fol. 1541] Simply put, the Government's petition raises this very, very simple issue viz., Does an adjudication by

this court that certain specified license agreements are unlawful, illegal, null and void render them unforceable agreements?

If the answer to that question is in the affirmative, as the Government contends, then this court should grant the relief prayed for. If on the other hand this court answers it in the negative, then this court obviously will refuse the relief which we ask for.

In this latter event, however, it seems to us that this court will then have substantially modified its decree by refusing to secure to it the full force of the terms used therein.

Put concisely, it is apparent that the Government's position involves no complex issues and requires merely an order securing the integrity of the May 15, 1951, decree.

Thank you.

Judge Cole: If this court grants the petition of the Government enjoining U.S.G. in the various suits you have listed, would that carry with it the third count, for instance, which makes no reference to the contract whatsoever, this quantum meruit count?

I realize you are not taking any position as to that, but I am wondering if to grant your petition as it is presented here, would be all inclusive of the litigation as it stands, in Iowa, for instance.

[fol. 1542] Mr. Knuff: I have not given that matter any thought, Judge Cole. I should think that the decree could be so worded as to assure that if the court grants the Government's petition, it should apply as to the first and second counts of these various suits. I think they could work out a decree that would take care of a situation like that.

Mr. Rosenman: Your Honors, could I make sure, please, that one word is corrected in your copies of this? There is a confusing word on page 2, in the footnote.

Judge Stone: Surely.

Mr. Rosenman: In the footnote, the word "paragraphs" appears, and we have corrected it to "articles" on as many as we could catch, and I am not sure it has been corrected.

Judge Stone: Pardon me. That is where, Judge Rosenman?

Mr. Rosenman: On page 2, in the first column, down in

the footnote, the word "paragraphs" should read "articles."

Judge Stone: "Articles and paragraphs"?

Mr. Rosenman: No; just "articles" for the word "paragraphs."

Judge Worley: Would you like to clarify your position on that, Mr. Spray?

Mr. Spray: Yes, sir. What I thought I have said, your Honor, was that I had no quarrel with his illustration, but then I went ahead and stated the reasons why I thought this was a different situation.

Judge Worley: Thank you.

[fol. 1543] Mr. Spray: Thank you, your Honor.

Judge Stone: Are counsel ready now for the submission of this matter?

Mr. Bromley: Yes, your Honor.

Mr. Rosenman: Yes, your Honor.

Judge Stone: The matter will be submitted, and the court will recess until called.

Judge Cole has very properly suggested what I should have thought of myself, and that is the appreciation of the court for the very splendid presentation of the views of counsel for the several parties, and the help that those presentations, as well as your excellent briefs, will give us in trying to reach a proper conclusion in this matter. You have our appreciation.

Judge Worley: You presented them too well.

Judge Stone: Judge Worley suggests that you presented them too well.

(Whereupon, at 3:10 p.m., the matter was submitted and the court adjourned.)

[fol. 1544] (File endorsement omitted)

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants.

Petitions of the United States, National Gypsum Co., Certain-Teed Products Corporation, Ebsary Gypsum Co., Inc., and Newark Plaster Co. for Orders, Modifications or Directions for the Enforcement, Construction or Carrying Out of the Final Decree of May 15, 1951.

OPINION—JULY 6, 1954

Counsel who argued orally, who appeared at the hearing or who were on the briefs for the various parties are as follows.

For Petitioner, The United States of America: Mr. Edward Knuff (Special Assistant to the Attorney-General) argued orally; Mr. Vincent A. Gorman and Mr. Lawrence Gochberg (trial attorneys for The United States) appeared; Mr. Stanley N. Barnes (Assistant Attorney-General), Mr. Charles H. Weston and Mr. Edward Knuff (Special Assistants to the Attorney-General), Mr. William D. Kilgore and Mr. Vincent A. Gorman (trial attorneys for the United States) were on the briefs.

For Petitioner, National Gypsum Co.: Mr. Samuel I. Rosenman argued orally; Mr. Seymour Krieger, Mr. Elmer E. Finck and Mr. Seymour D. Lewis appeared; Mr. Samuel I. Rosenman, Mr. Elmer E. Finck, Mr. Seymour D. Lewis, Mr. Stanley M. Silverberg, Mr. Howard Weinstein, and Mr. Seymour Krieger were on the briefs, as also were Finck & Huber and Rosenman, Goldmark, Colin & Kaye, of Counsel.

For Petitioner, Certain-Teed Products Corporation: Mr. Norman A. Miller argued orally; Mr. Herbert W. Hirsh, Mr. C. Roger Nelson, Mr. Henry Clausen and Mr. Franklin M. Schultz appeared; Mr. Herbert W. Hirsh, Mr. Norman

A. Miller and Clausen, Hirsh & Miller were on the briefs, as were Garson Purcell and Purcell & Nelson, of Counsel.

For Petitioner, Newark Plaster Company: Mr. Benjamin P. DeWitt argued orally; joint briefs were filed for Newark Plaster Company and for Ebsary Gypsum Company, Inc. upon which were DeWitt, Pepper & Howell (attorneys for Newark) and Joseph S. Rippey (Attorney for Ebsary), as also were Benjamin P. DeWitt, Sidney Pepper and Joseph S. Rippey, of Counsel.

[fol. 1545] For Petitioner, Ebsary Gypsum Company, Inc.: Mr. Joseph S. Rippey argued orally.

For Respondent, United States Gypsum Company: Mr. Cranston Spray and Mr. Bruce Bromley argued orally; Mr. Robert C. Keck, Mr. Hugh Lynch, Jr. and Mr. John E. MacLeish appeared; Mr. Bruce Bromley, Mr. Cranston Spray, Mr. Robert C. Keck and Mr. Hugh Lynch, Jr., were on the briefs, as also were Cravath, Swaine & Moore and MacLeish, Spray, Price & Underwood, of Counsel.

Mr. Albert E. Hallett appeared for The Celotex Corporation.

Before the Honorable KIMBROUGH STONE, United States Circuit Judge and the Honorable WILLIAM P. COLE, Jr. and the Honorable EUGENE WORLEY, Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

[fol. 1546] For Petitioner, Ebsary Gypsum Company, Inc.: Mr. Joseph S. Rippey argued orally.

For Respondent, United States Gypsum Company: Mr. Cranston Spray and Mr. Bruce Bromley argued orally; Mr. Robert C. Keck, Mr. Hugh Lynch, Jr. and Mr. John E. MacLeish appeared; Mr. Bruce Bromley, Mr. Cranston Spray, Mr. Robert C. Keck and Mr. Hugh Lynch, Jr. were on the briefs, as also were Cravath, Swaine & Moore and MacLeish, Spray, Price & Underwood, of Counsel.

Mr. Albert E. Hallett appeared for The Celotex Corporation.

Before the Honorable KIMBROUGH STONE, United States Circuit Judge and the Honorable EUGENE WORLEY and the Honorable WILLIAM P. COLE, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

[fol. 1547] STONE, Circuit Judge: The United States

brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, et al., which were engaged in the mining of gypsum rocks and in the manufacture and sale of gypsum products. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees. At the close of evidence for the United States, the statutory Court of three Judges sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (U. S. v. U. S. Gypsum Co., et al., 67 F.Supp. 397).

The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U.S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U.S. 869).

After remand, the Government moved for a summary judgment, which was entered on November 7, 1949 (one Judge dissenting). As of that date, this Court entered a decree intended to cover the matters involved. Both sides appealed. The Government contended that the decree was not adequate to cure the ill effects of the illegal conduct of the defendants. The defendants contended that the summary judgment had denied their right to present direct evidence which would have established the lawfulness of their activities.

May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U.S. 959) in a memorandum (339 [fol. 1548] U.S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Antitrust Act,' is affirmed. The corporate de-

fendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain, or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

On November 27, 1950, the Supreme Court decided (340 U.S. 76) that the decree of November 7, 1949 was inadequate. The Court pointed out wherein it found such inadequacies and closed its opinion as follows: "With these general suggestions, the details and form of the injunction can be more satisfactorily determined by the District Court. Its procedure for the settlement of a decree is more flexible than ours." On the same day, the Supreme Court extended its injunction order of May 29, 1950 (339 U.S. 960) to be "continued in effect until the entry of a final decree in the District Court."[1]

On May 15, 1951, this Court modified its earlier decree in accordance with this opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree.

[fol. 1549] In january, February or March, 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-Trust action. These suits were: against the National Gypsum Company, in the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District; against Newark Plaster Company, in the District of New Jersey; and against the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative

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[1] This extension order appears in the mandate issued to this Court on the remand from the opinion in 340 U.S.

claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement. The time period covered by each of these four suits was, roughly, from the first opinion by the Supreme Court (March 8, 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

The Petitioner in each of the four suits here has filed, in the Anti-Trust case, its separate petition to enjoin the USG suit against it and for associated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-Trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa district cases to await action here. Also, the United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claims based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative [fol. 1550] claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

Both by briefs and oral arguments, the issues have been excellently presented by very able counsel for all of the parties.

A plan as a guide to our sequence in considering the issues before us is under four general headings as follows:

I—Jurisdiction
II—Scope of Article IV of the Decree
III—Modification of the Decree
IV—Misuse and Purge

This opinion will follow that arrangement.

I—Jurisdiction

Jurisdiction of a Court to act upon matters presented to it is purely a matter of power to act. Having such power, whether a Court should exercise it may or may not become a matter of discretion depending upon whether, under all

the circumstances of the situation before the Court, the Court has a duty or has a choice.

Petitioners claim jurisdiction here on four grounds: (a) to compel obedience to the Decree, (b) to implement the Decree in order to effectuate its "basic" purposes, (c) to exercise a "paramount" jurisdiction under express reservations in Article X thereof, and (d), under broad powers of a court of equity, as the most appropriate forum to prevent possible misconstruction of the Decree, in a multiplicity of actions, by Courts unfamiliar with this Anti-Trust case litigation.

Besides countering each of these grounds, USG contends (a) that only the Government (being the sole original complainant) can move to construe or enforce the Decree, and (b) that the Government can participate in the four suits [fol. 1551] as a permitted intervener or as an *amicus curii*.

Such being the contentions as to this issue, it seems logical to consider first the contentions of USG. The main reliance of USG is Buckeye Coal and Railway Co. v. Hocking Valley Co., 269 U.S. 42. Petitioners distinguish this case on the grounds that the Buckeye was not a party to that Anti-Trust suit (while Petitioners are defendants in such action here); and that Article X of this decree expressly reserves jurisdiction to enable "any of the parties to this decree * * * to apply to this Court, at any time for such orders" etc. They cite Missouri-Kansas Pipe Line Co. v. U. S., 312 U.S. 502; Local Loan Co. v. Hunt, 292 U.S. 234 and Terminal Railroad Ass'n. v. U. S., 266 U.S. 17 to support their contention that parties to an anti-trust case may act to protect their interest based on the Anti-Trust Decree.

Speaking generally and without regard to any special considerations applicable to anti-trust suits, it is correct to say that a court of equity has power to enforce its decrees and that such power includes implementation of the basic purposes thereof in so far as such appears from the language or from the clear intendment thereof. These rules apply to civil anti-trust suits brought by the Government with the important qualification or limitation as to the parties who may take advantage of them. This difference arises from the purposes of such suits. The purposes of such an action are to destroy an economic situation which is

resulting from a conspiracy or monopoly in restraint of interstate commerce to the harm of the public.

To represent and protect this public interest is made the duty of the Attorney-General (15 U.S.C.A. § 4 and related sections of the Act.)[2] USG relies upon the Buckeye [fol. 1552] Coal & Railway Co. et al. v. Hocking Valley Railway Company et al., 269 U.S. 42, which dismissed certain petitions in intervention seeking relief in an anti-trust suit brought by the Government and in which a decree for dissolution had been entered some seven years before the intervening petitions were filed, as establishing the doctrine that only the Attorney-General can seek to enforce, construe or modify a decree requiring dissolution under the Act. There are expressions in the Buckeye case which tend to support such a view.[3] However, this statement is immediately followed by another which clearly implies that the situation might have been different had interveners been parties to the Anti-Trust suit.[4]

Parties to an original anti-trust suit have a status therein which often does not apply to outsiders. This arises from the practical effects of the decree upon the legal rights of the parties. Such a decree is based upon a determination that the Act has been violated by an existing

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[2] This duty is different and broader than the right given individuals to recover separate damages under 15 U.S.C.A. § 15. Compare United States v. The Borden Company et al., 348 U.S. —, May 17, 1954.

[3] At page 49 of that opinion the Court stated:

> "* * * The United States, which must alone speak for the public interest, does not appear with them [the interveners] on this appeal. They have therefore no *locus standi*. *United States* v. *Northern Securities Co.*, 128 Fed. 868" [should be 808].

[4] At page 49 appears:

> "Underneath all these reasons for dismissing the appeal, is the fundamental objection that these coal companies presented no case upon their petition justifying their intervention. They were not parties to the original suit."

[fol. 1553] economic situation. Necessarily, the relief is such alteration of that situation as will do away with all unlawful features and potentialities. Unavoidably, such legal surgical operations involve and change the interrelationship of the defendants, whose only reason for being made parties defendant was that they participated in the violation of the Act. Such decrees are intensely practical. Often, in this readjusting process, a decree provides not only for duties but also for rights *inter se* the parties. Where such rights are given, they carry to the recipient party the right to urge compliance, within the limits of the decree.

This is the rule applied in Terminal Railroad Association of St. Louis et al. v. United States et al., 266 U.S. 17. This was an action for contempt instituted by the "west side lines" against the "east side lines" based upon the contention that the latter had violated an anti-trust case decree to the damage of rights alleged accorded the "west side lines" under that decree. In that opinion (p. 27) the Court stated:

> "In these proceedings, the United States did not join in the complaint or participate in the hearing in the District Court, but has since appeared and is aligned with the appellees. The Proceedings were instituted by the west side lines, not to vindicate the authority of the court, but to enforce rights claimed by them under the original decree. The controversy is between them and the east side lines as to whether the former or the latter shall bear transfer charges on west bound through freight."

Also, the Court (p. 29) stated:

> "* * * The question whether the east side lines are bound to pay transfer charges on west bound through freight depends upon the proper construction and application of the original decree."

There is another case which is important. In an anti-trust suit by the United States v. Columbia Gas and [fol. 1554] Electric Co. et al., a consent decree was entered. The closing paragraph of the decree provided that Pan-

handle Eastern Pipe Line Co. (not a party in the action) "upon proper application, may become a party hereto for the limited purpose of enforcing the rights conferred by Section IV hereof." Thereafter, Panhandle sought to do this by applying for leave to intervene, which was denied by the District Court. The appeal of Panhandle is Missouri-Kansas Pipe Line Co. v. United States et al., 312 U.S. 503.

In discussing the case, the Supreme Court stated (p. 504) that the "issues here revolve around the scope of those provisions of the decree." Among the arguments pressed was a challenge to the jurisdiction over the appeal or, "in the alternative, insisting on the propriety of the action of the district court" (p. 505). It was argued that "the Attorney-General is the guardian of the public interest in enforcing the anti-trust laws * * * [and that] injection of new issues ought not to be allowed to delay disposition of the main litigation * * *" (p. 505). The Court stated (p. 506):

> "All of these arguments misconceive the basis of the right now asserted. Its foundation is the consent decree. We are not here dealing with a conventional form of intervention, whereby an appeal is made to the court's good sense to allow persons having a common interest with the formal parties to enforce the common interest with their individual emphasis. Plainly enough, the circumstances under which interested outsiders should be allowed to become participants in a litigation is, barring very special circumstances, a matter for the *nisi prius* court. But where the enforcement of a public law also demands distinct safeguarding of private interests by giving them a formal status in the decree, the power to enforce rights thus sanctioned is not left to the public authorities nor put in the keeping of the district court's discretion.
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> "That is the present case. Panhandle's right to economic independence was at the heart of the controversy. An important aspect of that independence was the [fol. 1555] extension of its operations to permit sales in Detroit. The assurance of this extension was deemed so vital that it was safeguarded by explicit provisions in the decree."

Further, the Court stated (p. 508):

> "We are not concerned with the substantiality of this claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing. To enforce the rights conferred by Section IV was the purpose of the motion." "Nor can the enforcement of this protection be deemed remotely in conflict with the public duties of the Attorney-General, nor to bring in digressive issues, nor to impeach the existing decree. It is a vindication of the decree."

In the concluding paragraph, the Court states (p. 509):

> "In a memorandum filed by the Attorney General we are advised that on January 18, 1941, the district court filed an opinion approving the plan for modifying the original decree subject to some suggestions by the Government. This, we are told 'is believed to satisfy the public interest,' and so the Government desires to sustain the action of the court below without further litigation. We recognize the duty of expeditious enforcement of the antitrust laws. But expedition cannot be had at the sacrifice of rights which the original decree itself established. We assume that the district court will adjust the right which belongs to Panhandle with full regard to that public interest which underlay the original suit."

We think that these three cases announce the following rules of law applicable to the situation here: the Attorney-General is the representative of the "public interest" in anti-trust cases brought by the Government; but that where a dissolution decree by specific statement or by fair implication therein accords rights to parties thereto, they have a standing, in the main suit, to enforce such rights in a manner consonant with the underlying purposes of the decree.[5]

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[5] We have confined our discussion to parties to the original Anti-Trust suits. However, there are other cases where persons not parties but directly affected by the decree in

[fol. 1556] In this Final Decree, there was (Article X) an expressly reserved jurisdiction "for the purpose of enabling any of the parties to this decree, or any other person, firm or corporation that may hereafter become bound thereby in whole or in part, to apply to this Court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith."

Such reservation is sufficient to sustain jurisdiction.

For the reasons that the Petitioners here are parties to the original Anti-Trust suit presenting claims to rights under the Final Decree; and that Article X of that Decree expressly reserves jurisdiction, we hold that jurisdiction to entertain these petitions exists. In so holding, we apply the language in the Missouri-Kansas Pipe Line Co. case, *supra* at p. 508 that "We are not concerned with the substantiality of this claim. The sole question before us is whether there was standing to make the claim before the district court. We hold there was such standing." Such "substantiality" depends upon what we will call "The Merits" of these controversies—to be considered later in this opinion.

Next, passing to the four grounds alleged by Petitioners to sustain jurisdiction—all of which are challenged by USG.

The inherent power of a court of equity to compel obedience to its decrees is conceded by USG. It contends [fol. 1557] that its suits do not violate the Decree, hence this doctrine is inapplicable here. Where it is seriously contended, as here, that these suits do violate the Decree, obviously, this Court has power—jurisdiction—to determine whether such violation exists; and, if it does exist, how it may be cured.

As to the existence of power—jurisdiction—we think it

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such cases have been allowed, in connection with such suits, to intervene or to defend to test their rights. Examples are Hughes v. United States, 342 U.S. 353; United States v. Paramount Pictures et al., 334 U.S. 131, 176-178; United States v. Swift & Co. et al., 286 U.S. 106; United States v. California Cooperative Canneries, 279 U.S. 553; Continental Ins. Co. et al. v. United States et al., 259 U.S. 156.

is not controlling that Petitioners might urge the Decree as a defense in the USG suits. That question is not one of the existence of jurisdiction in this Court but rather one of whether this Court, in its discretion, should exercise such jurisdiction instead of leaving such issues to be determined in the USG suits.

As to the ground for jurisdiction based upon "implementation" of the Decree to effectuate its basic purposes, we think the reasoning in Local Loan case (*supra*) at p. 239 is merely one of the methods of seeking relief in the original action. There it was by an ancillary bill and here by petitions. Here, as there, the jurisdiction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" is a basis urged here for our jurisdiction. Here, Petitioners urge that Article IV of the Decree established a "status" which is endangered by the USG suits. We think this issue is within the jurisdiction of this Court. As to the nature and limits of implementation, see Hughes v. U. S., 342 U.S. 353, 356-357.

As to modification of the Decree as a Jurisdictional matter, Article X expressly reserves that power. Whether or to what extent the Decree should be modified are matters within the proper exercise of that power. If this power should be exercised, we think we have power (as admonished by the Supreme Court in this case, 340 U.S. at pp. 88-89) [fol. 1558] to make any modifications which will, "so far as practicable, cure the ill effects of the illegal conduct, * * *." At the same time, we cannot enlarge the Decree beyond the limits necessary to perfect its effectuation. (U. S. v. Swift & Co., 286 U.S. 106, 114). Also, U. S. v. International Harvester Co., 274 U.S. 693, 702, where the Court stated that a supplemental complaint by the Government to broaden the original decree must be denied because "This is entirely inconsistent with *the purpose of the consent decree,* both as appears from its terms and as it was apparently construed by the District Court itself" (italics added). Also, see Hughes v. U. S., 342 U.S. 353, 356-357.

As to jurisdiction based on possible misconstruction of the Decree in a multiplicity of Courts. It seems to us that this ground is really that of a multiplicity of actions. The matter of possible misconstruction of the Decree is rather a *reason* for taking jurisdiction where there is a claimed

multiplicity of actions each involving the meaning and application of the Decree. We think there is a proper and clear multiplicity of actions, to wit, the four present suits by USG and the claims against Celotex and Kaiser. Multiplicity of actions prevention is a long established basis of equity jurisdiction. We think such jurisdiction is present here. Our conception of this character of jurisdiction is that its exercise is discretionary instead of compulsory. The extent of such exercise should depend upon our solution of the issues herein as to the merits.

In this part of our opinion we are not determining anything as to the merits but only broadly that Petitioners have the right to proceed.

Our next task is to determine the merits of the several [fol. 1559] issues which Petitioners claim entitle them to relief. In doing this, we do not leave behind us all questions of jurisdiction. The broad issues are: (a) the Scope of Article IV of the Decree, (b) the Modification of the Decree, and (c) Misuse of Patents, with the related matter of Purge. As to each of these issues there enters a matter of jurisdiction—not as to *general* jurisdiction to entertain Petitioners' actions here but as to the legal limits within which we may act in considering and determining the particular issue. An illustration of this kind of jurisdiction is the general doctrine that a decree cannot be enlarged beyond the effectuation of the purposes thereof.

II—Scope of Article IV

Petitioners contend: (1) that Article IV of the Decree "in terms and by fair intendment" bars these suits by USG; (2) that, even if Article IV "in its present form" is not a bar, yet it should be so *implemented* as "necessary to achieve the basic purpose" of the Decree; and (3) that if such remedy is deemed not within the Decree, "as it presently stands," the Decree should be so modified, because the need for such relief has only recently become necessary in order to achieve its basic purpose. The last of these three contentions will be hereinafter treated under the next heading of this opinion—that of "III—Modification."

The scope of Article IV should be determined in the light of the issues in the Anti-Trust case, of the entire Final Decree, of the proceedings in this Court in connection with

the two decrees (November 7, 1949 and May 15, 1951), and the here pertinent statements in the opinions of the Supreme Court in this litigation. To discuss each of these matters adequately is an unnecessarily large undertaking for the purposes of this opinion. We shall attempt only a sufficient outline of the essential high points.

[fol. 1560] *The Issues.* The Anti-Trust suit was to enjoin violations of Sections 1, 2 and 3 of the Act. These violations were charged as being carried out by means of patent license agreements granted by USG to the other defendants (manufacturers of gypsum board). The opinion of Chief Judge Stephens very finely and completely narrates the facts and issues on the trial which resulted in the first appeal (333 U. S. 364). We refer to his opinion (*United States* v. *United States Gypsum Co.*, 67 F. Supp. 397) for a more detailed statement of the issues.

The Final Decree. The pattern of the Final Decree of ten Articles is as follows. Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents"[6] and "Patent Li- in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void";

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[6] "Patents" is defined as including all patents and applications therefor (covering gypsum board, its processes and methods of manufacture or use thereof) issued to, applied for or acquired "within a period of five (5) years from the date of this decree", as well as patents issued upon any of said applications, continuations, etc. of any such patents or applications.

censes";[7] Article III declares the defendants have acted

[7] "Patent Licenses" mean the patent license agreements in effect between USG and each of the other defendants "at the time the complaint herein was filed and described in said complaint as follows: [here follows listing of eighteen such agreements] and any supplement or amendment" thereto.

Article V contains the injunction provisions;[8] Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material to us here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad jurisdiction to protect and effectuate the purposes of the Decree.

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[8] These provisions are "from entering into or performing any agreement or understanding among the defendant companies or other manufacturers of gypsum products to [fol. 1561] fix, maintain or stabilize, by patent license agreements or other acts or course of action, the prices, or the terms or conditions of sale, of gypsum products sold or offered for sale to other persons, in or affecting interstate commerce; and from engaging in, pursuant to such an agreement or understanding, any of the following acts or practices:

"(1) agreeing upon any basis for the selection or classification of purchasers of gypsum products;

"(2) refraining from selling gypsum products to any purchaser or any class of purchasers;

"(3) agreeing upon any plan of selling or quoting gypsum products at prices calculated or determined pursuant to a delivered price plan which results in identical prices or price quotations at given points of sales or quotations by defendants using such plan;

"(4) policing, investigating, checking or inquiring into the prices, quantities, terms or conditions of any offer to sell or sale of gypsum products."

Proceedings in this Court. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed [fol. 1562] that there was no genuine fact issue remaining to be determined. Defendants filed offer of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered. June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949. It is this decree from which the Government and the defendants appealed (Defendants' appeal 339 U. S. 959 and 960, Government appeal 340 U. S. 76).

We have gone through the transcript of the hearings in this Court (June 14, 1949), the written or printed suggestions and memoranda of the parties filed before, in connection with and after that hearing. Much of these matters and the hearing had to do (*inter alia*) with the various suggestions as to the form of decree to be entered, including the scope and purposes of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void [fol. 1563] in their entirety. It was in this connection that it voiced its apprehensions as to the period involved here. Since our concern here is with what took place after the first opinion of the Supreme Court and before

entry of the Final Decree (May 15, 1951), our search was primarily aimed at anything in this presentation in connection with the November 7, 1949 decree which might throw particular light upon the period of our concern. Some little discussion occurred, at the hearing, over the terms and conditions of compulsory licenses.

At this point, it is convenient for us to narrow our consideration of the causes of action alleged in the petitions filed by USG in the various other District Courts. These petitions contain five Counts each in the actions against National and against Certain-Teed, and six Counts in those against Ebsary and Newark.* The first two Counts of all four petitions are directly based on the license agreements set forth in Article II of the decree of November 7, 1949. Article IV of that decree nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the license patents. This Article was made effective *pendente lite* by the Supreme Court in connection with disposition of the appeal of the defendants in the Anti-Trust case (May 29, 1950, 339 U. S. 960) by enjoining any continued performance thereunder. Article IV passed into the Final Decree unchanged. The effect of Article IV was to nullify completely these license agreements. In this situation, we [fol. 1564] determine that these two Counts in all of these suits should be enjoined from further prosecution because they clearly violate the express provisions of Article IV. We are not impressed by the contention of USG that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely ground for claimed relief and must be so regarded. This determination allows us hereinafter to limit and concentrate attention upon the other Counts of each petition.

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* In the suit against Ebsary and in that against Newark the additional Count (Count 6) is for alleged infringement of a patent not covered in any of the license agreements listed in Article II of the Decree. We will later herein determine as to these Counts 6.

We turn now to matters in connection with the formation of the 1949 decree which throw light upon the period now involved. In this connection, it should be in mind that the four Petitioners here had ceased paying royalties (under the license agreements) shortly after the first opinion of the Supreme Court (333 U. S. 364, March 8, 1948).

During the discussion at the hearing on June 14, 1949, Mr. Miller, counsel for Certain-Teed stated:

> "• • • Mr. Dallstream, who will follow me, will present to Your Honors the exact changes we desire to make in both decrees [presented by the Government and by USG] which would give us the decree we would be satisfied with and which we hope that Your Honors will adopt."

Thereafter, Mr. Dallstream stated:

> "At IV, which United States Gypsum has left out altogether, and has gone back over to page 7 and shown it lined up with VII of the Government, we would like to suggest that in lieu of either, the Article VII of the Government and Article IV of U. S. Gypsum, that a new Article IV reading in exactly the language of the Masonite case be entered, which would read as follows:
>
> > " 'That each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and is illegal, null, and void.'
>
> "Chief Judge Stephens: You suggest that in place of Article VI of the Government?
> [fol.1565] "Mr. Dallstream: Of the Government and article IV of United States Gypsum.
>
> "Chief Judge Stephens: Yes.
> "Mr. Dallstream: I agree with Mr. Finck that we cannot dodge the fact that whatever interpretation should be put on the Supreme Court's decision, the majority of this court have decided that the mere plurality of licenses, accompanied by the other fea-

tures that existed in this case, made those agreements illegal and that, being illegal, they are unenforceable and are null and void.

"Now, we are faced with the dilemma: What are we going to do about it: We have got to have some new ones if we are going to be fair to the industry, to these licensees, the public, and to all concerned; and so, some provision must be made, and we think V and VI take care of that, and if we declare them null and void for these reasons, which have been recited in the previous paragraph of this decree, that we have taken care of the situation.

"In order that United States Gypsum will have no misunderstanding of my position, I want them to know that my suggestion is in no sense based on any hope or desire on my part to get out of any license fees during any interim period, and if we can agree upon an appropriate license agreement, as far as my client is concerned, we are willing to let the royalty rate, whatever it is, agreed upon apply back to the time when we ceased paying royalties. I just want to make it clear to all that we are not attempting by this declaration of illegality of them to find some way of avoiding the license fees which during this none of us have paid." (Transcript, pp. 8220-8221.)

In a Reply Memorandum filed by USG (July 23, 1949), are the following statements:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6.)

"They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu quo* to the extent that any licensee desires to

continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)

"In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, [fol. 1566] which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)

"National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

It is clear from the foregoing quotations that the situation as to our period was brought up at the hearing and in the USG Memorandum in connection with the discussion as to the scope and possible effect of what later became Article IV, which struck down the licenses *in toto*. USG thus expressed its apprehension that the licensees had in mind some purpose of avoiding an accounting for use of its patents during our period. In so far as Certain-Teed and Celotex were concerned, any ground for this apprehension was expressly disavowed by Mr. Dallstream. National, Newark and Ebsary made no mention of the matter. No party sought to have it, specifically and separately, included in the decree of November 7, 1949.

It is important to emphasize the matter, in connection with which, these apprehensions of USG were expressed. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the decree should be confined, as to declaration of illegality, to the price fixing provision in the license agreements. Strenuously, USG contended for such limitation. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to prospective Articles III, IV, V and VI. As a companion and resultant position, USG urged that, while the existing agreements should be *can-*

celled, as of the date of the decree, only the minimum [fol. 1567] price provision should be declared illegal. The result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.* The decree of November 7, 1949 declared the agreements "illegal, null and void" in entirety.

The same reasoning as to Article IV would apply to the Final Decree unless the situation is affected by the later Supreme Court decisions herein or by what occurred in this Court on the last remand (in connection with the entry of the Final Decree here). We have examined the meager original file (in the Clerk's Office) as to what took place in this Court after the remand on the 340 U. S. appeal. We find nothing except counter suggested forms of decree filed by the Government and by USG. Neither contains anything expressly bearing upon our problems relating to this period covered by these USG suits. Apparently, this Court took these submitted forms and shaped its Final Decree of May 15, 1951 in endeavoring to follow the directions of the Supreme Court as announced in 340 U. S. 76.

Supreme Court Opinions. Concisely summarized, the three opinions of the Supreme Court made the following determinations which need consideration in connection with the point II of this opinion. In 333 U. S. 364, the Court decided (1) that the defendants had "acted in concert"—conspired—to control prices and to monopolize the gypsum industry; (2) that the instrumentalities created and employed to effectuate these purposes were license [fol. 1568] agreements covering patents owned or controlled by USG; and (3) that such agreements covered control (a) of prices of patented gypsum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof. In the course of this opinion, the Court

announced that the motive—good faith in reliance on the belief that such agreements were lawful under *United States* v. *General Electric Co.*, 272 U. S. 476— did not bar such patent exploitation as here found. The case was remanded for further proceedings.

When this Court granted a summary judgment on this remand and entered its decree, both the Government and the defendants appealed. The Government objected to the decree as being too narrow. The defendants contended their proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment. The Supreme Court affirmed Article III of that decree to the effect that sections 1 and 2 of the Act had been violated; entered an injunction against "enforcing in any manner whatsoever" the license agreements (339 U. S. 960); and dismissed the appeal of the defendants (p. 959).

On the appeal by the Government, that Court altered and broadened some of the provisions of our decree and remanded the case "for further proceedings in conformity with this opinion" (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to us arising from these USG suits; Article IV was not changed.

In that opinion the Court stated (pp. 88-90):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty [fol. 1569] to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
>
> "The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirma-

tive actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us. Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse. Rather we have felt an obligation to intervene in this most significant phase of the case when we concluded there were inappropriate provisions in the decree. In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation."

Evaluating all of the foregoing matters and those now before us, we have some doubt as to whether Article IV is firm ground and it seems wiser to resolve those doubts against the contention that this Article, by fair implication, covers our situation. We are less disturbed in so resolving this doubt by the consideration that we can reach the same ultimate result over ground that we deem firm.

Newark and Ebsary. In Footnote 9 hereinbefore, we have referred to an additional Count (VI) in the USG petitions against those companies. This seems an appropriate place to determine that matter and, also, of another [fol. 1570] feature in those two petitions. The first matter is whether the patent covered in those Counts is included in list of patents defined in Article II of the Decree. The second is whether those two companies are liable for infringement of that, as well as other patents set forth in Counts I to V inclusive.

As to the first of these two matters. Application for this patent was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. USG contends that this patent was not included in any of the license agreements with either of these companies. This, the companies deny. This patent (No. 2,044,401) was obviously an improvement patent. As such, we think it was included as paragraph 18 of the licenses to each of these companies (See Transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488). Also, Article II of this Final Decree defines "Patents" as meaning "United States Letters Patent and applications [therefor] * * * relating to gypsum board, its processes, methods of manufacture or use, now [May 15, 1951, the date of the Decree] owned or controlled by" USG. Also, the broadening of Article II, § 3 by the Supreme Court (340 U. S. at p. 90) seems directly to include "improvement" patent subject matter.

As to the second matter. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG petitions against Newark and against Ebsary, it seeks recovery (Counts I-II) for license royalties on patents covered by the old [fol. 1571] licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

We have already disposed of all recovery up to May 15, 1951 (the Final Decree). Our immediate concern is with the period between this entry of the Decree and the filing of these USG actions, early in 1953. Neither Newark nor Ebsary have filed answer in these USG suits. We were informed in this presentation, that such answers would include a denial of use of these patents during this later period. Such defenses would obviously pose the direct issue of infringement *vel non* since this Decree. We think trial of that issue before the New York and New Jersey District Courts should not be interfered with here. There

is no room, in this situation, for application of the multiplicity of actions rule, since each of these two cases must depend, as to this issue, upon its own set of facts. Nor do such limited issues affect the Final Decree here in any respect.

III—Modification

It seems to us that there is some inter-mixing of the positions (as argued by both sides) of the legal principles of "implementation" of what is claimed to be required by the Decree (as it presently is) with the right and duty as to modification of the present Decree. Although the same practical effect might result from either "implementation" or modification, yet the legal considerations which control and limit the use of each differ from those applicable to the other.

We think this divergence lies in the different purposes to be served based upon construction of different phases of a decree. As to implementation, the search is for the specific provisions or for the revealed broad purposes [fol. 1572] and intendments of a decree. If such search clearly shows such provisions or such intendment, implementation may—possibly must—be employed. If such does not appear, then resort may be had to expressed or implied powers to modify. The bases and the limits of the power and as to the duty to modify (if power exists) depend upon some considerations which differ from those governing implementation. We think the difference between the two remedies is exampled in *Hughes* v. *U. S.*, 342 U. S. 353 at 356-8. The purpose and the permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always, such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

Here, we have no doubt of our power to make any *proper* modifications. Such power being expressly reserved in Article X of the Decree, we do not have to rely on any general equitable doctrine concerning the powers

of a court of equity to protect and enforce its decrees, although these reservations in Article X express the purposes of the general equity doctrine, namely, to construe, carry out and enforce the Decree.

However, any and all powers (expressed or implied) to modify an equity decree have other limits than "the length of the Chancellor's foot." In this respect, we face the two contentions of USG: (1) that the situation arising from the USG suits was a matter "not then [when the Decree was entered] before the [this] Court or intended [fol. 1573] to be decided by it" and, therefore not within the Final Decree; and (2) that, if it is within the power of this Court to modify the Decree so as to enjoin its suits, "there is no sound, equitable reason why" it should be thus enlarged. These two USG contentions present the successive questions of power to modify and of discretion in the use of any existing power.

Generally speaking, there is no doubt that a court of equity has power to modify its decrees so as to make them fully effective. USG argues and cites cases dealing with the limitations on such courts in construing their decrees.[10] We may accept them as announcing the broad

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[10] Such rules apply to modifications. USG presents them under the headings and citations following.

"(1) Injunctive provisions in a decree must be precise and specific," citing *Shine Chain Theatres* v. *United States*, 334 U. S. 110, 126; *Hartford-Empire Co.* v. *United States*, 323 U. S. 346, 410; *Swift & Co.* v. *United States*, 196 U. S. 375, 396, 401; Federal Rules of Civil Procedure, Rule 65(d).

"(2) A Decree is limited in its application to the issues actually presented and intended to be adjudicated at the time of entry," citing *Oklahoma* v. *Texas*, 272 U. S. 21, 43; *United Shoe Machinery Co.* v. *United States*, 258 U. S. 451, 460; *Vicksburg* v. *Henson*, 231 U. S. 259, 268-273.

"(3) Plain and unambiguous terms of a decree may not be extended or contracted by construction," citing *Hughes* v. *United States*, 342 U. S. 353, 357; *United States* v. *International Harvester Co.*, 274 U. S. 693, 702-3; *Terminal*

doctrine that a decree may not be enlarged, beyond its intended proper scope, by the medium of modification.

In examining this matter of power we must not lose sight of the character of a decree in an anti-trust case. [fol. 1574] While the general legal rules governing modification of decrees are not exempt from application in such cases, yet the character of such litigation permits—sometimes requires—a degree of elasticity. This feature comes into existence because of the situation that such a decree is designed vitally to change an unlawful, but existing, economic arrangement into such rearrangement as will remove the unlawful features. In framing such a decree, the Court is always necessarily acting with the knowledge that the remedies it then deems sufficient may, from experience thereafter, prove to be incomplete or defective—either because of lack of foresight at the time the decree is formed or because of subsequent happenings or conditions: In short, such a decree can rarely *crystallize* the entire matter. There must be a measure of only *gelling* which is susceptible of modification. Such we think is the teaching of *Hughes* v. *United States*, 342 U. S. 353, 357 and of *United States* v. *Swift & Co. et al.*, 286 U. S. 106, 114, as well as other cases.

Therefore, the question here, as to power, is whether the modifications urged by Petitioners would be an improper enlargement or (as contended by Petitioners) are proper to accomplish the purposes of the Decree. The determinative test is whether or not such modification is reasonably necessary to effectuate the basic purposes of the Decree.

The situation here is that Article IV of this Final Decree did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such. It simply made no reference to them at [fol. 1575] all. Some months after the Decree became

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Railroad Ass'n. of St. Louis v. *United States*, 266 U. S. 17, 27, 29; *Butler* v. *Denton*, 150 F. 2d 689; *Union Pacific R. Co.* v. *Mason City & Ft. Dodge R. Co.*, 165 F. 844, 852 (rev. on other grounds 222 U. S. 237); *St. L. K. C. & C. R. Co.* v. *Wabash R. Co.*, 152 F. 849, 852 (modified 217 U. S. 247).

final, these suits were begun and later brought to our attention for action.

We have, hereinbefore, determined that they involved violations of the Decree as to the first two Counts of each. We now hold that we have jurisdiction to consider whether the Decree should be modified to affect prosecution of the Counts for infringement, for *indebitatus assumpsit* and for *quantum meruit*.

We think these "basic purposes" are to be sought by consideration of the purposes of this Anti-Trust suit, of the opinions of the Supreme Court, the proceedings in this Court as to formation of a decree on the two remands, and upon the terms of the Final Decree.[11]

This was an Anti-Trust action charging violations, by the defendants therein, of Sections 1, 2 and 3 of that Act. The Supreme Court, in its three opinions (333 U. S., 339 U. S., and 340 U. S.), determined violations of Sections 1 and 2 of the Act through conspiracy to restrain interstate commerce and to monopolize trade therein in the gypsum industry; that these results had been accomplished through concerted action under eighteen similar patent license agreements granted by USG to the other defendants; and that such license agreements were illegal, null and void. To cure this situation, that Court affirmed Article III of the November 7, 1949 decree of this Court and enjoined defendants, pending further order of the Court, "from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, main- [fol. 1576] taining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain, or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of

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[11] Under the preceding point (II—Scope of Article IV.) of this opinion, we have examined such features of these items applicable to that discussion. We will try to avoid repetition here except as clarity may require.

sale thereof" (333 U. S. 960). On November 27, 1950, this injunction order was "continued in effect until the entry of a final decree in the District Court." [12]

In discussing the duty of the trial court in formulating its decree in an anti-trust case where conspiracy in restraint of trade and monopoly have been determined, the Court (in 340 U. S. 76 at pp. 88-90) stated:

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
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> "* * * In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded [fol. 1577] by defendants, that *relief, to be effective, must go beyond the narrow limits of the proven violation*" [italics added].

When the case came back here on this last remand, this Court directed (order of January 26, 1951) filing of sug-

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[12] This extension order is contained in the original mandate of the Supreme Court to this Court on the remand under its opinion in 340 U. S.

gestions, as to form of decree, by plaintiff (Government) and by the defendants.

The violations of the Act are declared in Article III, which is the heart of the Final Decree. The other Articles of the Decree concern the remedies and methods which the Supreme Court and this Court then thought sufficient to cure the unlawful conspiracy and monopoly. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate these purposes of destroying the monopoly and the conspiracy and denying the fruits thereof.

The practical situation present in this matter of Modification consists mainly of the following:

(1) For some years extending into the trial of this Anti-Trust case, the gypsum industry had been effectively organized so that prices and methods of distribution were controlled through the medium of patent license agreements covering patents and applications therefor owned or controlled by USG. These agreements were between USG and each of the various other defendants. The agreements included both process and machinery covered by the patents.

(2) On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this Court determined that, under its construction of *United States* v. *General Electric Co.*, (272 U. S. 476), the separate license agreements were legal (pp. 421-441); and that these agreements were made *bona fide* with no ulterior purpose to violate the Act (pp. 458-484).

(3) On appeal (333 U. S. 364), the Supreme Court [fol. 1578] reversed and remanded (March 8, 1948) deciding that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

(4) The Supreme Court asserted "Of course, this appeal must be considered on a record that assumes the validity

of all the patents involved" (333 U. S. at 388). No change was made in that "record" in any subsequent proceedings in this Court.

(5) Almost immediately following this opinion of the Supreme Court, each of these four defendants stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed—Ebsary and Newark did not take out new licenses.

(6) The manufacturing plants of the licensees had been and were organized for use of these patent-covered methods.

(7) In the proceedings in this Court in regard to the formation of the November 7, 1949 decree, issues were presented as to whether the then license agreements should be nullified entirely or in a limited or qualified degree. It was in this connection, that USG argued for a limited or qualified prohibition; and made known its apprehension that an entire nullification might affect its expectation of receiving compensation for the use of its patents [fol. 1579] by the licensees during our period. This Court framed Article IV nullifying the license agreements entirely, as being illegal.

(8) On the defendants' appeal from that decree, the Supreme Court affirmed Article III and entered its injunction order (339 U. S. 960). In this injunction the Court expressly forbade defendants from "enforcing in any manner whatsoever" the existing license agreements and this status was thereafter continued up to the Final Decree.

(9) On the Government's appeal, the Supreme Court announced (340 U. S. at 87) that "good intentions" in the situation of this case was no defense; and that here (p. 88) this Court had the duty of compelling action to "cure the ill effects of the illegal conduct"—such action not being "limited to prohibition of the *proven means* [italics added] by which the evil was accomplished, but may range broadly through practices *connected with* [italics added] acts actually found to be illegal. * * * The conspirators should, so far as practicable, be denied future benefits

from their forbidden conduct." The Court stated (340 U. S. at 89) that "in resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur."

Considering this situation, we think the Final Decree should be modified to include a denial of recovery upon the infringement Counts of the USG petitions. Our reasons for this determination are as follows.

The basic thing which made this conspiracy and monopoly possible was the existence of the patent (owned, controlled or applied for) situation. It was the unlawful use by defendants of the monopoly rights, normally inhering [fol. 1580] in patent grants, which violated the superior rights protected by the Anti-Trust Act. One result of this unlawful use was to create an economic situation where the conspirators—other than USG—had conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

We think a close parallel—if not indeed a here controlling guide—is to be found in the two Hartford-Empire cases (323 U. S. 386 and 324 U. S. 570). In 323 U. S., one of the two broad issues was whether "the provisions of the decree are right" (p. 393). The District Court had appointed a receiver of Hartford *pendente lite*, whose duties included receipt of royalties from patent licensees under existing licenses from Hartford. A provision of the decree was that these royalties should be repaid to the licensees when the decree became final. In disposing of this provision, the Court (p. 411) directed that the receivership should be wound up; and "The royalties paid to the receiver by Hartford's lessees may, unless the District Court finds that Hartford has, since the entry of the

receivership decree, violated the antitrust laws, or acted contrary to the terms of the final decree as modified by this opinion, be paid over to Hartford. In any event Hartford should receive out of these royalties compensation on a *quantum meruit* basis, for services rendered to lessees."

[fol. 1581] The second appeal (324 U. S. 570) was upon petition of the Government "for clarification or reconsideration" of the opinion on the prior appeal. The Court (p. 571) quoted from its prior opinion what we have just above quoted. The Court (p. 572) disposed of the matter as follows:

> "The Government points out that had it not been for the receivership, many of the licensees (most of whom were not parties to the proceeding) would have paid no further royalties to Hartford, and that they may be able to justify refusal of payment of any royalties from the date of the receivership, and ought not to be put into the position of recovering royalties paid to the receiver, from Hartford.
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> "It has been open to each of these licensees at any time to repudiate its lease and license, to return the leased machinery, to refuse to pay further rentals or royalties, and to defend any suit arising out of such refusal to pay, *either for infringement or otherwise* [italics added]. It may be that licensees have not taken this course because they relied on the decree as entered by the District Court. In such reliance they may have expected that the moneys paid the receiver would be repaid to them.
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> "In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a *quantum meruit* basis (leaving out of consideration any amount otherwise payable for the privilege of practicing the patented inventions involved) in respect of the machines used in the interim. Unless Hartford, since the entry of the decree by the District Court, has been guilty of some added violation of the anti-trust laws, licensees must elect (a) to remain licensees on such reasonable rental and royalty basis for the future as the Dis-

trict Court may fix, or (b) repudiate the leases and litigate their rights as against Hartford to retain any portion of the rents and royalties paid. Depending upon such election of each of the lessees, the District Court may, on the application of each, make an appropriate order for the disposition of the fund in the light of the licensees' election and the principles stated in the opinion of this Court."

The here particularly applicable part of this quotation is "In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a *quantum meruit* basis (*leaving* [fol. 1582] *out of consideration any amount otherwise payable for the privilege of practicing the patented inventions involved*) in respect of the machines used in the interim" [italics added].

We think it a fair deduction from the sentence just quoted, that the Court had in mind the differences in the bases of recovery in *quantum meruit* and for infringement; and also the differences in measurement of damages or recovery for infringement[13] and on *quantum meruit*. The prayer on these infringement Counts is for "not less than a reasonable royalty."

Both because of the practical and legal situation here, and, also, the teaching in Hartford-Empire case, we think the Final Decree should be modified to cover prohibition from prosecuting the USG suits in so far as they are based on patent infringement during the period covered by those suits.

Count III of USG petitions is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements. This

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[13] This infringement Count V in the USG is brought under 35 U. S. C. A. § 67 which authorizes up to treble damages recovery. These Counts allege willful, deliberate and persistent infringement.

is but a left-handed, indirect method for recovering such royalties.[14] "Forms of action are a means of administering justice rather than an end in themselves * * *" (1 Am. Jur. p. 439). The Decree should be modified to enjoin prosecution of these Counts (Count III).

Count IV of USG petitions is for *quantum meruit* covering the use of the patents. Under the Hartford-Empire opinion (324 U. S. 570, 572), we think this Count is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents.

IV—Misuse and Purge

In all that we have heretofore stated in this opinion, we have laid aside consideration of the related issues of misuse of patents by USG and of purge of misuse. These issues are now to be examined. We shall first state the pertinent legal rules and then the factual situation to which the rules are to be applied.

The Law. It is an age-old doctrine of Equity Jurisprudence that equity will deny use of its powers to a wrongdoer. This is the doctrine of "unclean hands". This rule is applicable where the owner of patent rights seeks to extend those rights beyond the limits of his patent monopoly. This is the doctrine of "misuse" of patents.

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[14] This situation reminds of the expression in *International Salt Co.* v. *U. S.*, 332 U. S. 392, 400 where the Court stated:

> [fol. 1583] "* * * The District Court is not obliged to assume, contrary to common experience, that a violator of the antitrust laws will relinquish the fruits of his violation more completely than the court requires him to do. And advantages already in hand may be held by methods more subtle and informed and more difficult to prove, than those which, in the first place, win a market. When the purpose to restrain trade appears from a clear violation of law, it is not necessary that all of the untraveled roads to that end be left open and that only the worn one be closed."

This does not nullify the patent but prevents enforcement of it. Because of the nature of patent grants and because of the nature of this equity doctrine, such owner may, as to *future* protection of his rights and after the bale-[fol. 1584] ful effects of the misuse have been fully dissipated, relieve himself of this impediment by ceasing the unlawful use. This is the doctrine of "purge". These rules apply to whatever the form of the suit by the patent owner may be (*Edward Katzinger Co.* v. *Chicago Mettalic Mfg. Co.*, 329 U. S. 394, 399-400).[15]

The Facts. The issues as to facts are: (1) whether there was misuse; (2) whether, if there was misuse, it is shown as matter of law; and (3) whether, if misuse existed, it is shown, as matter of law, to have been purged before this period or is yet an undetermined issue of fact.

We think there was misuse by USG, as matter of law on the facts here, which has not been purged. The reasons for these conclusions follow. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This mis-

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[15] Some of the cases applying or illustrating the limits of the matters in this paragraph are *United States* v. *National Lead Co.*, 332 U. S. 319, 335; *Bruce's Juices* v. *American Can Co.*, 330 U. S. 743, 755; *Edward Katzinger Co.* v. *Chicago Mettalic Mfg. Co.*, 329 U. S. 394, 399-402; *Transparent-Wrap Machine Co.* v. *Stokes & Smith Co.*, 329 U. S. 637, 645; *Hartford-Empire Co.* v. *United States*, 324 U. S. 570, 571-572; *Same* v. *Same*, 323 U. S. 386, 414-419; *Mercoid Corporation* v. *Mid-Continent Invest. Co.*, 320 U. S. 661, 665-672; *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U. S. 173, 175; *Morton Salt Co.*, v. *G. S. Suppiger Co.*, 314 U. S. 488, 491-494; *B. B. Chemical Co.* v. *Ellis et al.*, 314 U. S. 495; *Leitch Mfg. Co.* v. *Barber Co.*, 302 U. S. 458, 461-463; *Altoona Publix Theatres* v. *American Tri-Ergon Corporation*, 294 U. S. 477, 493; *Carbide Corporation of America* v. *American Patents Development Corporation*, 283 U. S. 27, 31-35; *Continental Wall Paper Co. v. Louis Voight & Sons Co.*, 212 U. S. 227, 256 *et seq.*

use extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were patent license agreements containing various restrictive provisions.

[fol. 1585] One such provision (covering prices) had not been used for some years (since 1941) but the right to use had not been abandoned but expressly retained.

In connection with formation of the first decree (November 7, 1949), USG opposed strenuously a suggested provision declaring the license agreements "illegal, null and void". It contended the provision should go no further than to declare the "minimum price provisions" of the licenses to be "illegal" and that the licenses be *"hereby cancelled and terminated,"* suggesting that the broader provision had the purpose to relieve the licensees "from accounting with respect to anything done before or *after* the decision of the Supreme Court" [italics added].

On the appeal of the defendants (339 U. S. 960), that Court enjoined defendants "from enforcing in any manner whatsoever the provisions of their current license agreements * * *." This order was made May 29, 1950 and continued in force until the Final Decree (May 15, 1951).

In each of the present USG suits, Counts I and II are expressly based on the old license agreements and seek to recover the royalties provided therein in the amounts provided for and measured by those agreements. Counts III and IV are, respectively, actions of *indebitatus assumpsit* and *quantum meruit* posed on the same underlying factual situation created by the license agreements. The amounts sought in each of those two Counts is precisely the same as stated in Counts I and II—in Count III, the amount is measured as in the agreements. Count V (also Count VI in Newark and Ebsary suits) is for infringement based on deliberate infringement and praying recovery for an amount ("not less than a reasonable royalty") which exactly equals the amount measured by the unlawful agreements.

[fol. 1586] We think this course of conduct, as clearly shown by the proceedings of record in the Anti-Trust case and in these suits by USG, must be construed as

meaning that USG has continued to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. We think we should exercise our discretion and entertain these petitions on the ground of preventing a multiplicity of actions which affect the complete effectiveness of the Final Decree; and that USG should be enjoined from further prosecution of these actions.

USG urges that "this Court on the record before it knows of a number of facts any one of which constitutes evidence of purge at a time prior to May 15, 1951." USG then discusses five of such facts, with the reservation that they are "only illustrative and not the only or exclusive facts showing purge." In spite of this cautionary reservation, we must conclude that USG is presenting here those matters which it regards as most potent in showing purge.

The first of these five is that USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so";[16] and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act (*Edward Katzinger Co.* v. *Chicago Mettalic Mfg. Co.*, 329 U. S. 394; *MacGregor* v. *Westinghouse Elec. & Mfg. Co.*, 329 U. S. 402).

[fol. 1587] The second claimed purging act is based on the claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. The position of USG at that time is more accurately described, by one of its counsel, at the argument before us.[17] Thereafter, nothing appears bearing on

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[16] The "potential power" (*Ethyl Gasoline Corp.* v. *United States*, 309 U. S. 436, 458) remained.

[17] Counsel stated that the first decision of the Supreme Court (333 U. S.) "came as quite a shock to the old in-

"acquiescence" until the hearings (June 14, 1949) and the memoranda in connection therewith in respect to the summary judgment and resultant form of decree to be entered thereon. In that connection, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until these USG suits were filed was that made clear. Such suits included Counts for recovery [fol. 1588] under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

The third claimed purging act is the offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to our period, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form

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dustry. We were not expecting that. And everybody stopped in their tracks as far as these license agreements were concerned.

"The licensees stopped paying royalties. They stopped making reports. As National in its petition sets out, they stopped doing anything under the license, because the Supreme Court had held them unlawful.

"U.S.G. likewise did nothing to try to enforce the license agreements. We just sort of were in a status quo during that period there as far as taking any action. No action was taken by us to enforce them. And that is why, in answer to your question, I wanted to postpone it to explain that situation. And that was that no effort was made to audit the books, no royalties were paid during this three-year period that is involved in this litigation out in Iowa, and New Jersey, and New York."

of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76). That Court (p. 90) found the definition of gypsum board too restrictive; and also the time limit for applying for new licenses (pp. 93-4).

The Courts claimed act of purge is that USG had decided not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal, in self defense." Why either this unacted upon decision not to appeal or why an appeal by the Government should in any way affect this matter of purge is not clear to us. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

The fifth purging act (or situation) is that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements.[18] USG relies upon *Standard Oil Co.* v. *Clark*, 2 Cir., 163 F. 2d 917, 927, cer. den. 333 U. S. 873 and the two Hartford-Empire cases (323 U. S. 386, 411 and 324 U. S. 570, 572). In none of these citations was there found any attempt to extend unduly a patent monopoly beyond the entry of the final decree in the anti-trust litigations there involved. In each of these cases, the doctrine of patent misuse and purge was recognized but was found not effective in the situation then before those Courts. The USG suits now pending show conclusively that even yet it is striving to enforce the royalty provisions of the illegal patent license agreements.

[fol. 1589] [18] While not material in connection with this contention of purge, it is true that this injunction went beyond price fixing and extended to "by license or other concerted action arranging the terms and conditions of sale thereof [gypsum board]."

We think such an attempt is clear misuse of its patents; that such misuse yet continues; and that to allow prosecution of these suits would weaken the effectiveness of the Final Decree. As to *quantum meruit* Counts of the USG petitions, we think it will be sufficient if we enjoin further prosecution on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as matter of law, to exist and not have been purged.

Conclusion

Our ultimate conclusions upon the issues here are as follow: (1) that we have jurisdiction to entertain and determine the issues presented by Petitioners; (2) that the Final Decree should be modified as indicated in point "III—*MODIFICATION*." of this opinion; (3) that further prosecution of all Counts of the USG suits should be enjoined.

[fol. 1590] Petitioners are granted thirty days from the filing of this opinion, to serve upon opposing counsel and to file with this Court, suggested form of decree and form of Conclusions and Findings.

[fol. 1591] (File Endorsement Omitted)

In the United States District Court for the District of Columbia

No. 8017 Civil

United States of America, Plaintiff,

v.

United States Gypsum Company, et al., Defendants

Dissenting Opinion—July 6, 1954

COLE, Judge, dissenting:

In reaching a different conclusion from that presented in the majority opinion, I find it advisable to present this statement of my reasons therefor, which statement be-

comes brief because of the excellent rehearsal by my colleagues of the background and present status of this litigation.

As so aptly stated by the United States, in its brief, "of course, when a court's jurisdiction is drawn in question this is the threshold question in the case." This litigation was initiated, as the title indicates, by the United States as the sole plaintiff and was against the defendants now appearing as defendant petitioners herein except USG which appears as defendant respondent thereto; also, initially, it had as its basis the protection of the public interest in enforcing provisions of the anti-trust laws. The final judgment, entered therein after many years of intensive [fol. 1592] litigation, found against all defendants in language clear, concise, and completely capable of interpretation to meet any applicable situation growing out of the relationship which was the subject matter thereof. *Inter Alia,* it adjudged unlawful under the anti-trust laws of the United States, and illegal, null and void each of the license agreements listed in the decree.

It is my view that the United States can be the sole spokesman for the public interest. *Buckeye Coal & Railway Company et al.* v. *Hocking Valley Railway Company et al.,* 269 U. S. 42. While there have been situations, such as in the case of *Missouri-Kansas Pipe Line Co.* v. *United States et al.,* 312 U. S. 502, which might be construed, to some extent, as tending to contradict the rule laid down in the *Buckeye* case, *supra,* I do not so regard it.

Article X of the decree in this suit is quite broad in providing that the parties may apply to this Court "at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of compliance therewith," but this does not, in my opinion, contain the right for the defendants to stand in the shoes of, or even with, the United States as a protector of the public interest in litigation of this character and, in so doing, settle their own private differences. Likewise, such litigation, initiated by the United States, will not permit the main action to be encumbered

with extraneous issues of a private nature. *United States* [fol. 1593] v. *Columbia Gas & Electric Corporation et al.*, 27 F. Supp. 116.

The opposite viewpoint looks for support to *Missouri-Kansas Pipe Line Co.* v. *United States, supra,* which was an anti-trust proceeding wherein a consent decree was entered under which consent decree a stockholder of the defendant corporation had the right to become a party which right he sought to exercise. The Attorney General approved the plan presented by the petitioner for modification of the original decree. It is significant that the court in dealing with this phase of the litigation said:

> • • • This, we are told, "is believed to satisfy the public interest," and so the Government desires to sustain the action of the court below without further litigation. We recognize the duty of expeditious enforcement of the anti-trust laws. But expedition cannot be had at the sacrifice of rights which the original decree itself established. We assume that the district court will adjust the right which belongs to Panhandle with full regard to that public interest which underlay the original suit.

Following a rehearsal of the chronological course this lengthy controversy pursued, the United States, in its brief, made this statement:

> It is, of course, probable that the courts in which suits have been brought will give effect to this Court's judgment, and dismiss, because of the judgment, all claims based on the voided license agreements. • • •
> • • • • • • •
> • • • The position of the United States, as set forth in its petition, is that said final judgment bars enforcement of any claim based in whole or in part upon any license agreement thus adjudged null and void, and that suit to recover upon any such [fol. 1594] claim constitutes an attempt to defeat the Court's final judgment. The petition prays, by way of relief, that this Court enjoin USG from asserting any claim, and from maintaining, instituting, or threat-

ening to institute any action, based in whole or in part on any license agreement which the Court had adjudged illegal, null and void.

The United States stated in its petition that *it takes no position as to whether USG's alternative claims for recovery on a quantum meruit basis or for infringement, as made in the four foregoing actions, are barred by this Court's final decree of May 15, 1951,* or as to whether this Court should enter an order enjoining USG from prosecuting such alternative claims. [Italics supplied.]

Just why this court, under the circumstances, should feel called upon, in view of the Government's position, to restrain prosecution of the pending suits in the several district courts and take upon itself the adjudication of the controversy between the defendants when that controversy involves issues, such as the right to recover under *quantum meruit* or infringement, as alleged, when the Government as the sole protector of the public interest in litigation of this character does not join the petitioners in such request for this court to do so, but by inference at least suggests that it is beyond the scope of the decree handed down in these proceedings, I do not appreciate. If this court restrained the prosecution of the pending suits to the extent the Government's position finds the recovery sought herein to be within that prohibited by the final decree, the right, if any, to the [fol. 1595] petitioning defendant, USG, to recover under *quantum meruit* or infringement would have remained for adjudication in the district courts. Thus, the suits pending therein would continue as presently docketed for trial. Also, the several district courts wherein the suits are now pending are quite capable of construing and interpreting the meaning of the judgment passed in these proceedings, as applied to the pleadings and factual record subsequently to be developed in those courts, and rule thereon accordingly.

I do not find the situation before us as one requiring this court to spell out in supplementation of its original decree every conceivable type of litigation which might

develop between the defendants and presumed to have grown out of the relationship stricken down. Neither do I find the existing situation to be one calling for resort to Article X of the judgment by this court in order to construe, carry out, or enforce said judgment. Inherent power rests with this court always in proceedings of this character to enforce its judgments when such appears advisable. I do not, however, find need for the application of such power in these proceedings.

In the light of the foregoing expression of my views, I find it unnecessary to discuss other points argued in the case.

[fol. 1596] UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

[Title omitted]

Findings of Fact, Conclusions of Law, and Decree Proposed by National Gypsum Company and by Certain-Teed Products Corporation—Filed August 16, 1954.

[fol. 1597] Proposed Findings of Fact by National Gypsum Company and Certain-Teed Products Corporation.

2* 1. On August 15, 1940, the United States brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees.

28 2. On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this statutory Court of three judges determined that, under its construction of *United States* v. *General Electric Co.*, (272 U. S. 476), the sep-

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* Page numbers in the margin, unless otherwise indicated, refer to those pages in the Court's opinion, filed July 6, 1954, from which these Findings and Conclusions were derived.

arate license agreements were legal (pp. 421-441); and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (pp. 458-484). At
2 the close of evidence for the United States, the Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

2 3. The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U. S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U. S. 869).

[fol. 1598] 4. The Supreme Court (333 U. S. 364)
28 decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlleld, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

34 5. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by
19-20 USG were patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gypsum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof.

28, 30 6. One result of the patent misuse was to create an economic situation where the conspirators—other than USG—had organized their manufacturing plants and

conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.

30 7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative [fol. 1599] of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

28 8. Almost immediately following this opinion of the Supreme Court, each of the four defendant petitioners stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed, which were retroactive to May 15, 1951, the date of the Final Decree. Ebsary and Newark did not take out new licenses.

14 9. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Defendants USG and Celotex filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered.

14 10. On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intension

15 to sustain the motion for summary judgment; and [fol. 1600] counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memo-

randa were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949.

15 11. The hearing of June 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with and after that hearing had to do (*inter alia*) with the various suggestions as to the form of decree to be entered, including the scope and purposes of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety. In this connection it voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree.

17 12. In a Reply Memorandum filed by USG (July 23, 1949), are the following statements:

"The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6.)

18 "They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *statu quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)

[fol. 1601] "In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and void, which not only goes beyond the scope

of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)

"National, like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

18 13. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the declaration of illegality in the proposed decree should be confined to the price fixing provision in the license agreements or whether it should apply *in toto* to the entire license agreements. Strenuously, USG contended for such limitation to the price-fixing provisions. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to
19 prospective Articles III, IV, V and VI. As a companion and resultant position, USG urged that, while only the minimum price provision should be declared illegal, the existing agreements should be *cancelled, as of the date of the decree.* The result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.*

19, 29 14. The decree of November 7, 1949 adopted the contention of the Government and the licensees and declared the agreements "illegal, null and void" in entirety.

[fol. 1602] 15. When this Court granted a sum-
20 mary judgment on the remand and entered its decree, both the Government and defendant USG ap-

pealed. The decree of November 7, 1949, therefore, never became effective. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment.

16. On May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U. S. 959) in a memorandum (339 U. S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "'* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Anti-Trust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any mannner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commerce in gypsum board among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

17. On the appeal by the Government, the Supreme Court altered and broadened some of the provisions of the decree of November 7, 1949 and remanded the case "for further proceedings in conformity with the opinion" (340 U. S. 76, 95). In that opinion

there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed.

20, 21 [fol. 1603] 18. In that opinion the Court stated pp. 88-90):

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance. Such action is not limited to prohibition of the proven means by which the evil was accomplished, but may range broadly through practices connected with acts actually found to be illegal. Acts entirely proper when viewed alone may be prohibited. The conspirators should, so far as practicable, be denied future benefits from their forbidden conduct.
>
> "The determination of the scope of the decree to accomplish its purpose is peculiarly the responsibility of the trial court. Its opportunity to know the record and to appraise the need for prohibitions or affirmative actions normally exceeds that of any reviewing court. This has been repeatedly recognized by us. Notwithstanding our adherence to trial court responsibility in the molding of a decree as the wisest practice and the most productive of good results, we have never treated that power as one of discretion, subject only to reversal for gross abuse. Rather we have felt an obligation to intervene in this most significant phase of the case when we concluded there were inappropriate provisions in the decree. In resolving doubts as to the desirability of including provisions designed to restore future freedom of trade, courts should give weight to the fact of conviction as well as the circumstances under which the illegal acts occur. Acts in disregard of law call for repression by sterner measures than where the steps could

reasonably have been thought permissible. We turn then to the Government's proposals for modification of the decree on the assumption that only a violation through concerted industry license agreements has been proven, but recognizing, as is conceded by defendants, that relief, to be effective, must go beyond the narrow limits of the proven violation."

3 19. On appeal by the Government, the Supreme Court also extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree in the District Court."

3 20. On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree.

[fol. 1604] 21. The pattern of the Final Decree 13 of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents" and "Patent Licenses"; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void"; Article V contains the injunction pro- 14 visions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

14 22. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad

jurisdiction to protect and effectuate the purposes of the Decree.

35-36 23. USG did not purge the misuse of its licensed patents. USG urges five facts which it claims constitute evidence of purge at a time prior to May 15, 1951. These are as follows:

A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices [fol. 1605] that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so"; and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act.

36 B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; how-

37 ever, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

37 C. The offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not

effective as acts of purge, as to our period, for two [fol. 1606] reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76).

37 D. USG's decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal, in self defense." Neither this unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

38 E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements. The USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements.

[fol. 1607] 24. In January, February or March,
3 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-Trust action. These suits were: against the National Gypsum Company, in the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District; against Newark Plaster Company, in the District of New Jersey; and against the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for

damages because of infringement. The time period covered by each of these four suits was, roughly,
4 from the first opinion by the Supreme Court (March 8, 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

National Petition

Exs. A-D; USG Answer

6-8 25. In these suits USG seeks judgment against
10-11 National for $1,600,000; against Certain-Teed for $650,000; against Ebsary for $245,000; against Newark for $285,000; and interest and costs of the suit against each Petitioner.

National Petition

USG Answer

11 26. USG also asserted claims against the Celotex
8 Corporation and against Kaiser Gypsum Company
11 for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951.

15 27. The complaints filed by USG in the various District Courts contain five Counts each in the actions against National and Certain-Teed, and six Counts each in the actions against Ebsary and Newark.

15-16 [fol. 1608] 28. The first two counts of all four complaints are directly based on the license agreements set forth in Article II of the decree of November 7, 1949.

32 29. Count III of the USG complaints is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements.

32 30. Count IV of the USG complaints is for *quantum meruit* covering the use of the patents.

15, 32 31. Counts V and VI of the USG complaints allege infringement of USG's patents.

34-35 32. The amounts sought in Counts III-V of these suits for the period prior to the Final Decree is precisely the same as the amounts sought as royalties in Counts I and II, which are the amounts provided for and measured by the old unlawful license agreements.

National Petition Exs. A-D

20, 21 33. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,022. The USG suits against Newark Plaster Company and Ebsary Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338, 2,080,009 and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

21 [fol. 1609] 34. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and

22 method of manufacturing same. This patent was an improvement patent and, as such, was included as paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488).

22 35. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG complaints against Newark and Ebsary, it seeks recovery (Counts I-II) for license royalties on patents covered by the old licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

22 36. Neither Newark nor Ebsary have filed answer in the USG suits. The Court was informed in this

presentation that such answers would include a denial of use of these USG patents during the period subsequent to May 15, 1951. Such defenses would pose the direct issue of infringement *vel non* since the Final Decree.

4 [fol. 1610] 37. The defendant in each of the four suits filed by USG, hereinabove described, has filed in this Court and as a proceeding in this case (Civil Action No. 8017) its separate petition to enjoin the USG suit against it and for associated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-Trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa District cases to await action here.

4 38. The United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claims based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

[fol. 1611] PROPOSED CONCLUSIONS OF LAW BY NATIONAL GYPSUM COMPANY AND CERTAIN-TEED PRODUCTS CORPORATION.

Jurisdiction

9-10 1. Defendant petitioners are parties to the original Anti-Trust suit asserting rights under the Final
6-9 Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such rights in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree.

9-10 2. This Court has jurisdiction to entertain and determine the issues presented by Petitioners be-

cause such jurisdiction is expressly r served by Article X of the Final Decree.

10 3. In addition to such expressly reserved jurisdiction, this Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the inherent power of a court of equity to compel obedience to its decrees. Where it is seriously contended, as here, that the suits brought by USG do violate the Final Decree, this Court has jurisdiction to determine whether such violation exists; and, if it does exist, how it may be cured.

10 4. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on its jurisdiction to implement the Final Decree to effectuate its basic purposes. One method of seeking such implementation is by petition in the original action.

11 5. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based [fol. 1612] on the long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed
35 multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree.

10 6. It is not controlling as to the existence of jurisdiction that Petitioners might urge the Final Decree as a defense in the USG suits. That fact does not affect the existence of jurisdiction in this Court. It is relevant merely on the question whether this Court, in its discretion, should exercise such jurisdiction instead of leaving the issues to be determined in the USG suits.

Scope of Article IV

16 7. Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status.

It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG should be enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV.

[fol. 1613] Modification

8. The purpose and permissible function of an
23 order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

23 9. The power to make any proper modification of the Final Decree is expressly reserved in Article X of the Decree. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate the purposes of destroying the monopoly and the conspiracy and denying the
27, 11 fruits thereof. The Court has power to make any modification which will, "so far as practicable, cure the ill effects of the illegal conducts . . ." (340 U. S. at pp. 88-89)

24 10. In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify its decrees so as to make them fully effective.

34-38 11. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case, establish that USG did not purge itself of its patent misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge.

34, 35, [fol. 1614] 12. In view of the misuse by USG of

its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecution of all Counts of these actions.

13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree.

14. Count III of the USG petitions, for *indebitatus assumpsit*, is but a left-handed, indirect method for recovering the royalties provided in the illegal license agreements. The Decree should be modified to enjoin prosecution of Count III of the USG petitions.

15. Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as a matter of law, to exist and not have been purged.

16. Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits.

[fol. 1615] PROPOSED DECREE BY NATIONAL GYPSUM COMPANY AND CERTAIN-TEED PRODUCTS CORPORATION

Petitions having been filed in this court by defendants National Gypsum Company, Certain-Teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum

Company, Inc., on March 25, April 22, May 13, and June 3, 1953 respectively, for orders modifications or directions for the enforcement, construction, or carrying out of the Final Decree of May 15, 1951, and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions ans answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and [fol. 1616] 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

IT IS THEREFORE ORDERED, ADJUDGED AND DECREED:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is hereby modified by adding to Articles II, V and VI the following:

II.

* * * * * * *

6. "Misused patents" shall mean United States Letters Patent and applications for United States Letters Patent licensed by the defendant United States Gypsum Company under the patent licenses defined and enumerated in paragraph 5 of this Article.

V.

A. * * * * * * *

B. Defendant United States Gypsum Company is hereby ordered and directed to discontinue and dismiss, with prejudice to United States Gypsum Company, its pending actions against National Gypsum Company and Certain-

Teed Products Corporation in the United States District Court for the Northern District of Iowa; against Newark Plaster Company in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company in the United States District Court for the Southern District of New York.

C. Defendant United States Gypsum Company is hereby enjoined and restrained from instituting or threatening to institute, maintaining or continuing any action against any person, firm or corporation for payment for use of its misused patents alleged to have occurred prior to May 15, 1951.

[fol. 1617] IX. * * * * * * *

Costs arising out of the proceedings instituted by petitioners shall be assessed against United States Gypsum Company.

Dated:

Kimbrough Stone, J., Eugene Worley, J.

[fol. 1618] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

Memorandum of Newark and Ebsary adopting National's proposed Findings, etc.—Filed August 16, 1954.

Defendant petitioners, Newark Plaster Company and Ebsary Gypsum Co. hereby adopt and join in the proposed Findings of Fact, Conclusions of Law and Decree submitted by National Gypsum Company pursuant to the opinion of the Court herein filed July 6, 1954.

Dated: August 12, 1954.

DEWITT, PEPPER & HOWELL, Attorneys for Newark Plaster Company, 120 Broadway, New York 5, New York.

JOSEPH S. RIPPEY, Attorney for Ebsary Gypsum Company, Inc., 612 Powers Building, Rochester 14, New York.

[fol. 1619] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

United States Gypsum Company's Objections and Suggestions With Respect to Petitioner's Proposed Findings of Fact, Conclusions of Law, and Decree—Filed September 17, 1954.

This memorandum is submitted on behalf of United States Gypsum Company in opposition to the findings of fact, conclusions of law and decree proposed by National Gypsum Company and Certain-teed Products Corporation under date of August 16, 1954, and adopted and joined in by Newark Plaster Company and Ebsary Gypsum Company, Inc.

It states U. S. Gypsum's objections and suggestions in two parts: Part I presents basic errors inherent in [fol. 1620] the proposed findings, conclusions and decree because they incorporate findings and conclusions from the majority opinion * which are erroneous and which should therefore be given further consideration by the court. Part II deals with specific detailed objections and suggestions regarding the proposed findings of fact, conclusions of law and decree.

Part I.

U. S. Gypsum respectfully submits that there are certain fundamental errors in the opinion which if incorporated in any findings of fact, conclusions of law, or decree, would constitute reversible error. It believes that these matters should be called to the court's attention before its decision has been formalized by the entry of any findings, conclusions or modifications of the decree.

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* Unless specifically shown otherwise, all references hereinafter made to the opinion of this court will be to the majority opinion filed on July 6, 1954.

(1) The Opinion Erroneously Holds That in Seeking Compensation for the Use of Its Patents, U. S. Gypsum Has, as a Matter of Law, Continued to Misuse Them Up to This Time.

A basic error in the opinion of July 6, 1954, lies in its conclusion (pp. 34, 35, 38) that a continuing unpurged misuse of U. S. Gypsum's patents exists as a matter of law, because it seeks compensation from its co-conspirators for their use of its patents.

This conclusion could not be based on any evidence as to the factual situation existing during the 1948-1951 period here involved, or for many years prior thereto. Not only did the evidence in the original antitrust proceeding [fol. 1621] stop with the year 1941, but no evidence has been received by this court on the issues as to patent misuse and purge raised by the 1953 petitions and U. S. Gypsum's answers thereto.

Nor can this conclusion be based upon any claim that U. S. Gypsum is now using its patents to fix, maintain or stabilize prices, or to monopolize trade and commerce in the gypsum industry, by license agreements or by other acts or courses of action, or is attempting to enforce the price limitation provisions of the old patent license agreements. In fact, there is not an iota of evidence that U. S. Gypsum relied upon or attempted to enforce any of those price limitation provisions since 1941. Moreover, during a substantial part of the 1948-1951 period here involved, all of the defendants, including U. S. Gypsum and the petitioners, were effectively restrained by injunctive orders of this court and of the United States Supreme Court against any misuse of patents by operation under the price limitation provisions of the old license agreements. No suggestion has been made that any of the injunctive provisions of the decrees of this court, or of the Supreme Court's order, has been violated in any manner.

Rather, this court has taken the erroneous position that because U. S. Gypsum has brought suits in 1953 to recover money for the actual use of its patents, for which compensation has not heretofore been paid, such a money action in some way constitutes a continued misuse of its

patents. This determination apparently rests upon the facts, *first,* that these suits included two counts (*i. e.* Counts I and II) seeking to recover royalty under the illegal license agreements, and *secondly,* that the other alternate and inconsistent counts in these suits sought compensation in a like amount as that claimed under Counts I and II. This erroneous determination is not supported by any precedent and is violative of a number of well established legal principles.

[fol. 1622] (a) *The authorities.* Needless to say, the court cites no authority for its continued misuse ruling. We know of no other case wherein it has been held that the mere bringing of a suit to recover money alleged to be due under an unlawful license agreement, and in the alternative compensation for use of patents, without more constitutes, as a matter of law, misuse of a patent. It is an entirely novel proposition in support of which no authority could be cited. Actually, the only decision we are aware of is to the contrary. In *Park-In Theatres, Inc.* v. *Paramount-Richards Theatres, Inc. et al.* (D. C. D. Del. 1950), 90 F. Supp. 730 (Aff'd. 185 F. 2d 407; cert. den. 341 U. S. 950), the complaint alleged two causes of action; one for an accounting for royalties on a license agreement, and a second, in the alternative, for infringement. The court rejected defendant's motion for summary judgment on the infringement count even though it found that the existence of the license, the basis of the first count, constituted misuse. The court held that the issue of purge involved questions of fact which precluded granting summary judgment. It did not consider that the mere inclusion of a count on the license was misuse as a matter of law.

(b) *The patent law codification.* The continued misuse ruling conflicts with the proposition that a suit to enforce a patent right is not *per se* against public policy, which is now conclusively established by the new codification *

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* This codification went into effect on January 1, 1953. The U. S. Gypsum suits were filed thereafter.

of the patent laws providing (Title 35 U. S. Code, Sec. 271 (d)):

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

[fol. 1623] A patentee's right to grant a license (immunity from suit for infringement) and receive compensation therefor is clearly an enforcible right within the meaning of the new codification. Since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (such as Counts I and II) solely for the recovery of money does not in itself constitute misuse.

(c) *The final decree and other orders.* The continued misuse ruling is inconsistent with the final decree in this case. If that decree established anything as regards rights between the various defendants, it was that although the petitioners should have the right to continued use of U. S. Gypsum's board patents, U. S. Gypsum was entitled to a reasonable compensation for such continued use.

U. S. Gypsum's suits have not relied upon or attempted to enforce any of the price limitation provisions of the condemned license agreements, which were the heart of the adjudication of their illegality. Obviously, there is no concerted action of co-conspirators involved in the bringing of the suits. All that U. S. Gypsum seeks is fair compensation for the use of its patents, which is not only entirely consistent with the provisions of the final decree, but also with the comparable provisions of the November 7, 1949 decree, and with the injunctive provisions of the Supreme Court order of May 29, 1950, enjoining *only the price limitation provisions* and not the old license agree-

ments in their entirety, as the opinion erroneously states a number of times.*

[fol. 1624] U. S. Gypsum's suits, being simple suits to recover money for the actual use of its patents, could not possibly be said to constitute patent misuse. Even if Counts I and II be held to conflict with Article IV, as this court concluded, there is no basis for holding that such a violation, involving as it did only an attempt to collect money for the actual use of the patents, constituted patent misuse such as would prevent recovery of compensation upon alternative and inconsistent statements of claim. To so hold, is to inject a principle without benefit of any evidence inconsistent with the court's prior determination that U. S. Gypsum was entitled to be compensated for the continued use of its patents by the petitioners.

(d) *Federal Rules of Civil Procedure.* The continued misuse ruling violates the rules of modern pleading and penalizes U. S. Gypsum for following the Federal Rules of Civil Procedure, Rule 8(e)(2) of which provides:

> "A party may set forth two or more statements of a claim or defense alternately or hypothetically, either

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* The opinion says on page 16 that Article IV of the November 7, 1949 decree nullified completely the old license agreements and that the Supreme Court order of May 29, 1950, made Article IV effective *pendente lite* "by enjoining any continued performance thereunder"; on page 20, that the Supreme Court dismissed the defendants' appeal, affirmed Article III and "entered an injunction against 'enforcing in any manner whatsoever' the license agreements"; on page 29, that this injunction "expressly forbade defendants from 'enforcing in any manner whatsoever' the existing license agreements and this status was thereafter continued up to the final decree"; and on page 34 that it "enjoined defendants 'from enforcing in any manner whatsoever the provisions of their current license agreements * * *'. This order * * * was continued in force until the Final Decree." A careful reading of the order (Op. pp. 2-3) will establish this misunderstanding, which obviously influenced the decision.

> in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on equitable grounds or on both. * * *"

When U. S. Gypsum's complaints against National, Certain-teed, Ebsary and Newark were being drafted, U. S. Gypsum was faced with the very real problem, in view of the unique factual situation, of stating proper theories of action upon which recovery for the use of its [fol. 1625] patents, with or without permission, could be had. If the facts to be subsequently proved, and the law applicable thereto, showed that the defendant had used those patents without license, U. S. Gypsum could recover on its infringement count. If the defendant had a license, then there could be no recovery for infringement, but only on counts based upon such licenses as might be proven to exist. But there was a further question as to what licenses or kind of licenses, if any, might be found in fact and in law to exist, upon which the defendant might rely. It was possible that a defendant might defend by pleading it was licensed during the period in question under the old license agreements declared illegal in the final decree, as National actually did in its Eighth Defense to the infringement count in the Iowa suit. In anticipation of such a defense, U. S. Gypsum felt compelled to include Counts I and II lest the court rule that it failed to plead a proper basis for its claim (6/9/53 Hearing, Tr. 24-25; USG's Br. pp. 86, 99). It was a proper and necessary precautionary measure, authorized by the Federal Rules of Civil Procedure. No authority or precedent has ever suggested that such caution in pleading could possibly constitute evidence of continued misuse of a patent, as a matter of law, particularly when the various counts only assert money claims for royalties or compensation for the actual use of the plaintiff's patents.

Apparently misunderstanding U. S. Gypsum's position, the opinion states (p. 16):

> "• • • We are not impressed by the contention of USG that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely grounds for claimed relief and must be so regarded. • • •"

Of course, they state grounds for claimed relief, and were so intended. All U. S. Gypsum has attempted to do in [fol. 1626] its new pending suits is to recover a reasonable royalty or compensation for the use of its patents, with or without its permission, upon whatever theory the trial court might determine to be appropriate. If Counts I and II were held to be without merit, the worst consequence should be the dismissal of those counts. In holding that U. S. Gypsum thereby forfeited its right to recover for the use of its patents, this court has severely penalized it for pleading alternate and inconsistent claims in accordance with the Federal Rules of Civil Procedure. Such a penalty is unfair and unnecessary. It has no justification in a court of equity.

(e) *The quantum meruit and infringement counts.* The continued misuse ruling shows further misunderstanding of the facts and the law in seeming to attach the stigma of misuse of patents to the counts other than Counts I and II (p. 35). Thus, it erroneously states that the other counts are "posed on the same underlying factual situation created by the license agreements", and it treats the similarity in the *ad damnum* as significant (pp. 32, 34-35). It even attaches significance to the prayer for damages in the infringement count, where statutory language was used.

There is no basis for the statement that all of the counts were posed on the same underlying factual situation; actually, they were based upon inconsistent theories and factual situations. In attaching significance to the similarity of the *ad damnum* clauses, the opinion overlooks the well accepted principle of patent law, that where parties, as in this case, have established a rate of royalty for the

use of a patent in arm's length negotiations, not only prior to the period involved but also subsequently thereto (as was done here by National and Certain-teed in the licenses taken after the May 15, 1951 decree), that royalty rate serves to establish the reasonable compensation for the [fol. 1627] use of the patent, and the patentee cannot expect to be able to recover more (See USG Br. pp. 81-83). Moreover, the opinion fails to appreciate that the quantity of board on which compensation for use of the patent would be collectible was bound to be the same in each count, for U. S. Gypsum was only suing for the *actual use* of its patents and only attempting to recover compensation on gypsum board actually embodying the claims of its patents or made by the use of such patents. It did not seek recovery (even in Counts I and II) of the royalty provided for in the old license agreements, *i. e.*, 1% of the selling price of all board for the privilege of using the patents, whether or not they were used. If the patents were used at all, the damages in each count were bound to be the same. There is no merit in the conclusion that the similarity in the *ad damnum* evidences an attempt to recover indirectly, on counts other than Counts I and II, the royalty provided for in the old license agreements.

(f) *The Newark and Ebsary suits.* The ruling of continued misuse presents an intolerable situation in the confusion which it has caused as to the status of the Newark and Ebsary cases. The opinion states that in the complaints against Newark and Ebsary U. S. Gypsum seeks recovery "to the date of the filing of this complaint" in the case of all counts other than Counts I and II (p. 22). It then concludes that the issue of infringment *vel non* since the decree of May 15, 1951, which apparently will be joined in the New York and New Jersey district courts, should not be interfered with, stating further that there is no room for the application of the multiplicity of actions rule since each case must depend upon its own set of facts and that such limited issues do not affect the final decree in any respect (p. 22). This green light to the Newark and Ebsary suits in so far as they involve the period subsequent to May 15, 1951, becomes confused, however, by the [fol. 1628] ruling that in bringing these suits U. S. Gyp-

sum has continued to misuse its patents "up to this time" (pp. 35-38). If U. S. Gypsum is still misusing its patents, it would seem to afford an adequate defense to Newark and Ebsary for having infringed its patents. Thus, Newark and Ebsary are now given the blessing of this court for their defiance of the compulsory licensing provisions of the May 15, 1951 decree, and their disregard of U. S. Gypsum's property rights. This is a wholly improper result which follows the equally improper ruling that U. S. Gypsum is still misusing its patents, as a matter of law, by reason of the suits it has brought to recover compensation for the use of those patents.

If the continued-misuse-as-a-matter-of-law ruling is wrong, then the error should be corrected at this time and by this court, with the result that automatically U. S. Gypsum's right to proceed on Count IV (seeking *quantum meruit* recovery) should be restablished, for the opinion holds (pp. 32-33) that Count IV "is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents".

In fact, such a correction should also have the effect of automatically reestablishing Count III, on the theory of that count as stated to the court by U. S. Gypsum, *i. e.*, that it sought a *quantum meruit* recovery for the actual use of U. S. Gypsum's patents under circumstances from which the law would imply an agreement to pay (6/9/53 Hearing, Tr. 25; 1/13/54 Hearing, Tr. 142; USG Br. p. 85). Even on the construction placed on Count III by the opinion, *i. e.*, as a suit upon an express contract which should be enjoined as a left-handed way of recovering on the old license contracts (p. 32), Count III should be reinstated. For the opinion overlooks the fact that Count III expressly avers a rescission of the old license contracts [fol. 1629] and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license agreements.

(2) The Opinion Erroneously Concludes, Without the Taking of Any Evidence, That U. S. Gypsum Has Not Purged Its Patent Misuse, by Holding That as a Matter of Law Certain Facts of Record Do Not Show Purge.

A second basic error in the opinion lies in the conclusion (p. 34) that the earlier misuse of U. S. Gypsum's patents as a matter of law has not been purged. This conclusion is reached despite the fact that the opinion would deny U. S. Gypsum any opportunity of presenting evidence of a purging of the misconduct with which it is charged, and apparently results from the court's misconstruction of U. S. Gypsum's contentions regarding certain evidence of purge already in the record.

(a) *Denial of right to be heard.* The question of purging of patent misuse necessarily involves a factual inquiry into the circumstances of the particular case and cannot be decided as a matter of law until all of the pertinent facts are known (USG Br. pp. 131-134). The opinion has erroneously overlooked this established principle. It also fails to recognize the fact that the record before it was compiled over twelve years ago and that all issues which have been previously decided in this case were based upon facts which existed when the Government's complaint was filed in August 1940.

Admittedly, no issue of purging was ever presented to this court prior to the filing of the petitions and answers thereto in 1953, and no evidence on such an issue has ever been presented, despite the fact that issues with respect thereto were squarely raised by the 1953 petitions and the answers.

[fol. 1630] In addition to the record facts bearing on the question of purge, there are a number of other factual issues raised by the 1953 petitions and the answers thereto on which U. S. Gypsum has never had its day in court. The opinion would effectively preclude U. S. Gypsum from ever showing, for example, that in fact not only a decade of time but also an intervening war had caused the effects of any earlier patent misuse to have been wholly dissipated prior to May 15, 1951. It would pre-

clude U. S. Gypsum from ever offering its evidence to prove that shortly after the first Supreme Court decision in March 1948, when the co-conspirator licensees repudiated their licenses, it acquiesced in that repudiation —evidence compelling the conclusion that the offending license agreements were cancelled by mutual consent at that time, clearly establishing purge.

It is unfair and inequitable now to deprive U. S. Gypsum of its day in court by undertaking to determine the purge issue, a factual determination, without a full consideration of all pertinent evidence. U. S. Gypsum's answers to the petitions have raised material issues of fact which cannot be resolved against it as a matter of law without such a factual inquiry. That the presence of such factual issues calls for evidence and not a summary judgment is well established by the authorities (See USG Br. pp. 131-134).

(b) *Misconstruction of purge contentions.* Understanding that factual issues, including that of purge, would be subsequently proved after preliminary legal questions had been decided (see 6/9/53 Hearing, Tr. 6, 8, 9, 29-31; see also, Nat'l Br. pp. 67-68), U. S. Gypsum nevertheless contended in its brief (Br. pp. 134-140) that there were certain facts already of record which constituted evidence of purge at a time prior to May 15, 1951, sufficient not only to preclude a conclusion against it, as a matter of law, but even to resolve the purge issue in its favor. It discussed five such facts of record with the express reser- [fol. 1631] vation that they were "only illustrative and not the only or exclusive facts showing purge." The purpose of U. S. Gypsum's reservation in its brief was to make it clear that reference was made only to matters already of record and not to other factual issues of purge raised by the 1953 petitions and answers thereto (See USG Br. p. 134). It was certainly not its intention then to submit those five points as the only evidence that would be submitted on an actual trial of that particular issue, which had not heretofore been before the court, in the event the court determined that it had and should exercise jurisdiction. But the treatment of these five

facts in the opinion has brought about a wholly erroneous and inequitable result.

(1) In the first place, the opinion completely misses the point of one fact of purge relied on as a reason why this court could not conclude the issue of purge against U. S. Gypsum, as a matter of law, and why it should rule in its favor, *i. e.*, that on November 7, 1949, this court's decree was entered adjudicating the old license to be illegal, null and void, and enjoining their performance or enforcement (USG Br. p. 135). The effect of this fact is readily apparent from the opinion's statement in another connection (p. 16) that "Article IV of that decree [of November 7, 1949] nullified completely the license agreements listed in Article II." It was the effect of the decree itself, and not the incidental fact that U. S. Gypsum had decided not to appeal from the decree, that was relied upon by U. S. Gypsum. The opinion's reference to the incidental fact of U. S. Gypsum's decision not to appeal overlooks the facts that *first*, it was claimed (Cert. Br. p. 53) that the November 7, 1949 decree did not constitute a purge because U. S. Gypsum appealed from it, and *second*, it was only to meet such a contention that the argument, erroneously referred to by the court as the fourth fact, was made.

[fol. 1632] (2) One of the important acts of purging shown of record was U. S. Gypsum's repeated offers of new licenses to the various defendants in 1949. These new licenses were untainted with any improper provisions in so far as the matter of patent misuse is concerned. The 1949 decree approved a form of license which for all intents and purposes is the same as that which U. S. Gypsum's licensees were offered in 1949 and which National and Certain-teed accepted for the period after May 15, 1951. Moreover, the form of license approved by the 1949 decree differed from that approved by the final decree only in respect of requirements in the latter: (1) that licensees' reports need not show any breakdown with respect to thickness and size of board; and (2) that verification of licensees' reports be made by an independent auditor or a person acceptable to both parties who should report only the amount of royalty due.

Can it be that such incidental changes made in the licenses can give rise to a plain legal implication that these changes were necessary in order to block effectually continued misuse by U. S. Gypsum of its patents? Definitely not, and the Supreme Court's decision (340 U. S. 76, 94-95) demonstrates that the provisions were not of such a character. Price fixing and all other objectionable features being removed, the proffered licenses were innocuous and legal in every respect.

In rejecting U. S. Gypsum's offer of new licenses as evidence of purge, because they differed slightly from the form approved in the final decree, the opinion states that the Supreme Court had found the definition of gypsum board* and also the time limit of applying for new licenses too restricted (p. 37). That criticism of the compulsory licensing provisions of the November 7, 1949 decree, of [fol. 1633] course, had nothing whatsoever to do with the purging effect of U. S. Gypsum's earlier offer to replace all of its outstanding licenses with new licenses from which the objectionable clauses had been deleted.

The opinion states that the proffered licenses were not intended to become effective until the entry of the decree, since it was not until then that the old agreements were to be cancelled and terminated. U. S. Gypsum's offer of new licenses was not so limited, as appears from the proffered forms of license agreements filed with the court (see also 6/14/49 hearing, Tr. 8257-60). The proposed decretal provision cancelling the old license agreements was merely designed to dispose of, once and for all, any vestige of those agreements which had been replaced with new licenses. It cannot factually be given the fallacious significance attached to it by the opinion. In any event, the old license agreements were "nullified completely" by the November 7, 1949 decree (Op. p. 16).

(3) The opinion clearly erred in disposing of the contention that the abandonment of the old license agreements demonstrated purge. It finds (pp. 28, 30) that the licensees abandoned the license agreements following the first

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* U. S. Gypsum agreed with this view (340 U. S. 76, 90), so there was no issue as to that point.

Supreme Court decision on March 8, 1948. But it disposes of the averment set up in Count III of the pending suits that U. S. Gypsum "acquiesced" in that abandonment, by determining the issue without the benefit of evidence (p. 36). As this was a factual issue, not only in the Iowa suits but also before this court, it should not have been adjudicated without affording U. S. Gypsum the opportunity to prove its averment.*

(4) The opinion's rejection of the Supreme Court injunctive order of May 29, 1950, as showing purge, is [fol. 1634] premised upon its erroneous conclusion that U. S. Gypsum is still misusing its patents by the mere bringing of the suits to recover money for their use (pp. 37-38), a wholly novel and unsupportable doctrine. A further fallacious conclusion is contained in footnote 18 of the opinion, stating that it is not material to the issue of purge that the injunction went beyond price fixing and extended to arranging the terms and conditions of sale of gypsum board. This injunction (which on the remand on the Government's appeal was "continued in effect until the entry of the final decree" Op. p. 3) operated as a bar to further misuse of U. S. Gypsum's patents *pendente lite* and, unless it was violated (which is not here questioned), is certainly evidence of purge as of that date.

(5) Finally, the court shows a misunderstanding of U. S. Gypsum's contention regarding the non-use of the price limitation provisions of the old licenses since 1941. Certainly such non-use is evidence of purge, and is particularly material on the dissipation of the illegal effects of the patent misuse.

The opinion's rejection of the purge facts of record is further erroneous in ignoring their cumulative effect. It is shocking that a court of equity would permit co-conspirators free use of U. S. Gypsum's patents, despite

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* Counsel's statement referred to in fn. 17 (p. 36) does not furnish a sound basis for conclusively determining the "acquiescence" issue against U. S. Gypsum; nor could that issue be concluded by the fact that in 1949 all parties were suggesting a final disposition of the old license agreements by providing for their cancellation in the decree.

U. S. Gypsum's ten years non-use of price limitation provisions of the old licenses, the abandonment of those agreements by the parties, U. S. Gypsum's repeated offer of new licenses, and the injunction of this court and of the Supreme Court against misuse of the patents during much of the pertinent period. Assuming, *arguendo* that these facts do not establish purge, as the opinion concludes, they are certainly sufficient, when taken with the other facts put in issue by the 1953 petitions and answers thereto, to prevent a summary judgment of non-purge.

This is made amply clear by the final decree itself, the [fol. 1635] entry of which was not the first fact that dissipated the effects of patent misuse. If such misuse had not already ceased and its ill effects been dissipated, then the decree would have contained, as did the *National Lead* decree, for example, provisions enjoining U. S. Gypsum from enforcing its patents prior to the final decree. Despite the Government's second appeal solely for the purpose of enlarging the decretal remedies, the Government included no request for an injunction against enforcement of patent rights.

Here again, if the opinion is wrong in concluding, without the taking of evidence, that U. S. Gypsum has not purged its patent misuse, then the error should be corrected by this court, with the result that U. S. Gypsum's right to proceed on Counts III and IV should be reestablished (*supra*, pp. 10-11). The opinion holds (p. 33) in speaking of Count IV, that seeking a *quantum meruit* recovery "is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents."

(3) There Is Fundamental Error in the Decision to Ignore the Position of the Government, Expand the Decree Beyond Its Basic Purpose, and Create New "Rights" in the Co-Conspirator Licensees.

Neither the petitioners nor the court can point to any provision of the final decree, other than Article IV, as furnishing any basis for the claim that the suits brought

by U. S. Gypsum were violative of the provisions of that decree. None of the injunctive provisions in any way prohibited U. S. Gypsum from recovering for the use of its patents, and the compulsory licensing provisions assured it a reasonable compensation for such use (Articles [fol. 1636] V and VI). The opinion concedes that Article IV does not, either expressly or by fair implication, cover the counts in U. S. Gypsum's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (Op. p. 25).

Although recognizing unequivocally that any modification of the decree must be within the basic purpose of the decree as originally entered (p. 25), the opinion violates this principle by ignoring the Government's position and approving amendments establishing new "rights" in the co-conspirators National, Certain-teed, Ebsary and Newark.

(a) *The basic purpose of the final decree.** The original proceeding was brought by the Government charging an antitrust violation by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-teed, Ebsary, Newark and others, as licensees (1947 R. 1, 10-11). That litigation resulted in an adjudication that the defendant companies had acted in concert in restraint of trade and commerce to fix, maintain and control the prices of gypsum board, and had monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act. This adjudication, contained in Article III, is as the opinion states, "the heart of the final decree" (p. 27).

The basic purpose of the decree, then, was to give the Government adequate relief to prevent agreements or understandings in the future resulting in Sherman Act violations through license agreements or other acts or courses of action (see Arts. IV, V and VI of the decree; USG Br. Appen. vi-x). No suggestion has been made that

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* For a more complete statement of the basic purpose of the decree, reference is made to USG Br. pp. 56-61.

[fol. 1637] the provisions of the decree have in any way failed to accomplish that purpose, and the Government, the sole spokesman for the public interest (*Buckeye Coal & Railway Co., et al.* v. *Hocking Valley Railway Co., et al.*, 269 U. S. 42; Judge Cole's dissenting opinion, p. 1), and the only party plaintiff in this case, has clearly stated its position with respect to the claims of the defendant petitioners for modification. The Government states that the purport of Article IV, in declaring the old license agreements illegal, null and void, was to bar enforcement of any claim based on those agreements and that U. S. Gypsum should be enjoined from prosecuting Counts I and II of its pending suits. But, the Government expressly states that it takes no position as to whether U. S. Gypsum's alternative claims for recovery on a *quantum meruit* basis, or for infringement, are barred by the final decree or as to whether this court should enter an order enjoining prosecution of such alternative claims. The Government, which brought the suit, and alone represents the public interest, is apparently satisfied that the case should not be encumbered with extraneous issues of a private nature,* and that to modify the decree to enjoin the determination of those issues in the courts wherein they are pending is to expand the decree beyond its original purpose. In other words, if the Government believed that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary to carry out the basic purpose of the decree, it would certainly have taken that position before this court.

The opinion nevertheless approves a modification of the decree to include an extraneous matter which it concedes was not dealt with at the time the decree was entered (p. 25). This is done to assure the co-conspirator licensees the "right" to avoid payment for their actual use [fol. 1638] of U. S. Gypsum's patents, notwithstanding the fact that the final decree adopted their proposals that they should have the continued use of such patents, *but upon*

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* *U. S.* v. *Columbia Gas & Electric Corp.*, 27 F. Supp. 116 (D. C. Del. 1939).

payment of a reasonable royalty therefor (USG Br., p. 15, fn. 12).

(b) *Rights of defendants inter se.* Not only does this modification go beyond the basic purpose of the decree, but it also violates the well established principle that the rendition of a judgment in an action does not conclude parties to the action, who are not adversaries under the pleadings, as to their rights *inter se*, upon matters which they did not litigate or have an opportunity to litigate between themselves; in other words, a judgment in favor of a plaintiff against two or more defendants is not conclusive of the rights and liabilities of the defendants *inter se*, except as to matters expressly put in issue between them, by cross-complaint or other adversary pleadings, and determined by the judgment in the first action.*

There were no issues joined as between the defendant co-conspirators, nor did the court purport to make any adjudication of rights as between them, with this single exception: having declared the old license agreements illegal, null and void, the court assured the defendant licensees the right to continued use of U. S. Gypsum's patents for a limited time, *but upon payment of a reasonable royalty therefor.***

(c) *Petitioners as co-conspirators.* Moreover, there is no support whatsoever for the extent to which the opinion has gone in modifying the prior decree to establish new "rights" in companies which have been adjudged guilty of conspiracy. It is not believed that a court of [fol. 1639] equity has even shown more tender concern for

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* Re-statement of the Law of Judgments, Sec. 82; 1 Freeman on Judgments, Sec. 920; 30 Am. Juris. 966-7; 101 A. L. R. 104; 142 A. L. R. 727; 152 A. L. R. 1066; *George A. Fuller Co.* v. *Otis Elevator Co.*, 245 U. S. 489 (1918); *Fouke* v. *Jordy*, 289 F. 220 (C. A. 5th 1923); *City of Owensboro* v. *Westinghouse*, 165 F. 385 (C. A. 6th 1908).

** Decree of May 15, 1951, Art. VI; Decree of November 7, 1949, Art. VI and VIII; USG's Br. Appen. pp. vii, xviii and xix.

the interest of certain co-conspirators at the expense of another. The opinion states (p. 30):

> "One result of this unlawful use was to create an economic situation where the conspirators—other than USG—had conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods."

At another point, in referring to the *Local Loan* case, it is said that there, as here, there is a basis for jurisdiction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" (p. 10).

Just what "fruits and advantages" a co-conspirator is entitled to in an antitrust decree is indeed difficult to comprehend. If co-conspirators National, Certain-teed, Ebsary and Newark conditioned their business operations upon the continued use of U. S. Gypsum's patents, that was part and parcel of their participation in the conspiracy. This court cannot equitably say that for their transgressions they should benefit by the free use of those patents when the decree itself required payment for their continued use. The petitioners National, Certain-teed, Newark and Ebsary were all conspirators. How does it lie in the mouth of any one of them to say that, by the mutual misconduct of all of them, they can refuse to pay for the use of the patents? The cases establishing the misuse doctrine can have no such application as between co-conspirators or law violators. If this were a simple case of an innocent infringer or licensee using the patents, [fol. 1640] there might be the basis for applying the misuse doctrine, but how can a court of equity hold that it should amend the decree, upon petition of guilty parties, to enjoin a patentee against the simple act of maintaining

a suit in another court to recover for their use of the patents?

The opinion even goes so far as to hold that their illegal activity created "rights" enabling the co-conspirators to grab the reins from the Government and obtain an amendment of the decree in order to protect and enforce their spurious private "rights." * The error is further accentuated in that this conclusion is reached without the taking of any evidence covering the period involved or for years prior thereto.

(4) The Reasons Assigned by the Court for Ordering an Amendment of the Decree to Enjoin Prosecution of the Infringement Counts Are Wholly Untenable.

The opinion states (p. 29) two reasons for ordering the modification of the final decree to include a denial of recovery upon the infringement counts of the pending U. S. Gypsum suits: (1) the teaching in the *Hartford-Empire* case, and (2) "the practical and legal situation here." Neither reason is sound.

(a) *Hartford-Empire.* The reliance on *Hartford-Empire* is based upon a misreading of certain language in the Hartford-Empire opinion on reconsideration (324 U. S. 570, 572), from which this court erroneously concludes that the Supreme Court there made some distinction between a *quantum meruit* recovery and an infringement recovery. Actually, that Court was dealing with two [fol. 1641] different claims and not with different remedies for the same claim.

The Hartford licensees (most of whom were not co-conspirators) had licenses covering not only the use of Hartford's patents, but also the lease of machinery and

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* The opinion (pp. 7-9) relies heavily on *Missouri-Kansas Pipeline Co.* v. *United States,* 312 U. S. 503, to support the conclusion that the petitioners were given "rights" in the final decree which supported their petitions for relief. That case is wholly dissimilar. There the petitioner was not a co-conspirator, but a victim of the conspiracy, and the decree had specifically given it the right to intervene.

the furnishing of services. The trial court had appointed a receiver *pendente lite,* who had collected the royalties payable by the licensees for the use of the patents and the leased machinery, and for the services rendered under the contract.

On appeal, the Supreme Court had held that the royalties paid to the receiver by the Hartford licensees-lessees should be paid over to Hartford, unless the trial court found that since the entry of the receivership decree Hartford had violated the antitrust laws or the decree, but that "in any event" (whether or not it had violated the law or the decree) Hartford should receive out of the royalties, compensation on a *quantum meruit* basis "for services rendered to lessees" (323 U. S. 386, 411).

On petition for rehearing, the Government pointed out that, but for the receivership, many licensees would not have paid further royalties and might be able to justify such refusal. The Supreme Court, on further consideration, recognized that each licensee might have elected to repudiate its lease and license, return the leased machinery, refuse to pay further rentals and royalties, and defend any suit arising out of such refusal to pay, either for infringement or otherwise, and that possibly the licensees did not do so because they relied on the return of royalties paid the receiver, as provided by the decree. Accordingly, it modified its original handling of this matter, segregating what should be done as to the leased machinery and services and what as to claims for use of the patents. Thus, the Court held that *under any circumstances* (*i. e.,* regardless of law or decree violation) the licensees must [fol. 1642] pay reasonable rentals and service charges on a *quantum meruit* basis for the machines used and services received during this period, leaving out at that point consideration of any amount otherwise payable for the privilege of using Hartford's patents (324 U. S. 570, 572).

The Court then considered the amount to be paid for using the patents, and ruled that unless Hartford had been guilty of some added violation of the antitrust laws since the District Court decree, the licensees must elect either (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court might fix,

or (b) repudiate the licenses and litigate against Hartford their right to any portion of the rents and royalties beyond that which Hartford was to receive in any event (324 U. S. 570, 572). In other words, if any licensee chose to repudiate its license agreement, it could litigate with Hartford as to the amount that Hartford might retain of that part of the royalties collected by the receiver that was not for machines and services, but if any licensee chose to continue to use Hartford's patents and machinery, then Hartford could retain the fund and the licensees were compelled to pay, for future use, a reasonable rental and royalty as determined by the District Court.

In fact, there was an ultimate settlement made between Hartford and various licensees, whereby the receiver was to pay each licensee who executed a covenant not to sue Hartford for any transaction occurring prior to the date of the final decree, a sum equal to 60% of the royalties which the particular licensee had paid the receiver, less certain minor expenses, and to pay the remaining 40%, less certain incidental amounts, to Hartford (See Par. 11, *Hartfort-Empire* final decree of October 31, 1945, and *Buck Glass Co.* v. *Hofferbert,* 176 F. 2d 250 (C. A. 4th 1949)). This resulted in Hartford's receiving a total of $7,267,049.82 from its licensees during this *pendente lite* [fol. 1643] period.* If Hartford was permitted to receive over $7,260,000 under its outstanding licenses which were invalidated by the decree, the *Hartford* case is certainly authority *against* enjoining U. S. Gypsum from seeking reasonable compensation for the actual use of its patents by its co-conspirators during a comparable *pendente lite* period.

This court's speculation (Op. pp. 31-32) that the Supreme Court language in *Hartford* shows that the court had in mind differences in the bases of recovery on *quantum meruit* and for infringement (*i. e.,* differences in measurement of damages for infringement and on *quantum meruit*) is completely without foundation and can furnish

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* "Final Report and Account of Operations of Receiver of Hartford-Empire Company" (p. 5) filed Dec. 20, 1945 in Civil Action No. 4426, U. S. Dist. Ct. N. D. Ohio W. D.

no basis whatsoever for the conclusion that the infringement counts should be enjoined. This is shown not only by the Government's petition for reconsideration and the various briefs of the parties filed with the Supreme Court before its second opinion which in no way discussed or considered differences in the bases of recovery, but also by the final decree that was entered in *Hartford-Empire* which made no such distinction.

(b) *The "practical and legal situation."* The so-called "practical and legal situation here" is equally ineffectual in furnishing any proper basis for enjoining the infringement counts.

The "practical situation" relied upon is set out in nine numbered paragraphs stating in rather inadequate fashion certain events in the course of the main litigation (Op. pp. 27-29). Notwithstanding everything there stated, the opinion had concluded (p. 25) that the final decree in this case did not cover the matter of U. S. Gypsum's right to sue for infringement or for *quantum meruit* for the use of its patents during the 1948-1951 period. Now, however, it states that the decree should be modified to include a denial [fol. 1644] of recovery upon the infringement counts because of the "economic situation" which the conspirators other than U. S. Gypsum found themselves in by reason of having conditioned their business operations upon the continued use of the patent rights given them under the license agreements and which, upon the Supreme Court's first opinion, were found to be violative of the Act, thus placing these licensees "in an uncertain and perilous position" (p. 30).* In the co-conspirators' election to repudiate the old license agreements and to continue using U. S. Gypsum's patents,** the opinion, erroneously as we have

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* For a further statement as to the error in this solicitude for co-conspirators, see *supra*, pp. 22-20.

** The opinion states that they elected to disregard the license agreements and to continue use of the "patented devices and methods." At another point, in describing the old license agreements (p. 28), it is said that they included "both process and machinery covered by the pat-

shown, saw "a close parallel—if not indeed a here controlling guide" in the two *Hartford-Empire* cases.***

The inconsistency between this ruling and the ruling at another point in the opinion (*i. e.* that the New York and New Jersey federal courts should determine the issue of infringement *vel non* by Ebsary and Newark, respectively) is discussed elsewhere in this memorandum (*supra*, pp. 9-10).

U. S. Gypsum respectfully urges that, in view of the matters hereinbefore presented, this court reconsider its opinion of July 6, 1954, and afford an opportunity for further hearing with respect thereto, before it formalizes the opinion by the entry of findings of fact, conclusions of law, and amendment to the decree of May 15, 1951.

[fol. 1645] Part II.

U. S. Gypsum objects to the proposed findings of fact, conclusions of law, and modification of the final decree in their entirety and to each paragraph thereof for the reasons stated in Part I hereof, and in addition thereto, and without waiving any of its general objections and suggestions, makes the following specific objections and suggestions:

A. Petitioners' Proposed Findings of Fact.

(1) Proposed Finding 1.

Proposed finding 1 reads;

> "On August 15, 1940, the United States brought an Anti-Trust action (Civil No. 8017) against United

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ents." This suggests an unawareness of the fact that basic product patents were included which were essential in the manufacture and sale of gypsum board. For example, Patent No. 2,017,022 (involved in all the pending suits) included seven product and five process claims. This, of course, is another of the many distinctions between this case and *Hartford-Empire*. There, none of the over 600 patents read on glass products.

*** This, of course, has reference to the two Supreme Court decisions on the appeal and on reconsideration.

States Gypsum Company, et al., * * *. The complaint charged that a controlling unlawful combination was effectuated by means of substantially uniform patent license agreements between USG and the other manufacturing defendants as licensees."

Objection is made to this proposed finding in that:

1. The first sentence is inadequate and misleading in failing to disclose that the antitrust action brought by the United States was not only against U. S. Gypsum, but also against National, Certain-teed, Newark and Ebsary, the four companies who filed the 1953 petitions seeking an amendment of the final decree to their benefit and to the detriment of U. S. Gypsum.

2. The second sentence is inadequate, inaccurate and misleading in its statement of the charges contained in the complaint and gives the impression that the patent license agreements constituted the sole charge of "unlawful com- [fol. 1646] bination." Although the opinion makes this brief statement of the complaint at the outset (p. 2), it recognizes its inadequacy later (p. 13) when it is stated:

> "The opinion of Chief Judge Stephens very finely and completely narrates the facts and issues on the trial which resulted in the first appeal (333 U. S. 364). We refer to his opinion (*United States* v. *United States Gypsum Co.*, 67 F. Supp. 397) for a more detailed statement of the issues."

It is suggested that the proposed finding be changed to read:

> 1. On August 15, 1940, the United States brought an Anti-Trust action (Civil Action No. 8017) against United States Gypsum Company, National Gypsum Company, Certain-teed Products Corporation, The Celotex Corporation, Ebsary Gypsum Company, Inc., Newark Plaster Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged a violation of Sections 1, 2, and 3 of the Sherman Act by reason of the defendants' activities in the man-

ufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-teed, Ebsary, Newark and other companies, as licensees. For a more detailed statement of the issues, reference is made to the opinion of Chief Judge Stephens narrating the facts and issues on the trial of the case (*U. S.* v. *U. S. Gypsum Co. et al.*, 67 F. Supp. 397).

(2) Proposed Finding 2.

Proposed finding 2 reads:

> "On the first trial on the merits, June 15, 1946 (67 F. Supp. 397), this statutory Court of three judges determined that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (pp. 421-441); [fol. 1647] and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (pp. 458-484). At the close of evidence for the United States, the Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure * * *."

Objection is made to this proposed finding in that:

1. The opening phrase of the first sentence, "on the first trial on the merits," erroneously implies that there was a subsequent trial or trials on the merits in which defendants had the opportunity of presenting evidence. There has been but one trial on the merits, and that did not proceed beyond the taking of the Government's evidence.

2. The date "June 15, 1946" erroneously indicates there was a one day hearing. In fact that was the date of this court's decision.

3. The first sentence is misleading in its implication that the determination of the three-judge statutory court had only to do with the construction of the license agreements under the *General Electric* case.

It is suggested that the proposed finding be changed to read:

> 2. The case came on for trial in due course and at the close of evidence for the United States, this statutory court of three judges on June 15, 1946 determined, among other things (67 F. Supp. 397), that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (67 F. Supp. at pp. 421-441); and that these agreements were made *bona fides* with no ulterior purpose to violate the Act (67 F. Supp. at pp. 458-484). The Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

[fol. 1648] (3) Proposed Findings 4 and 5.

Proposed finding 4 reads:

> "The Supreme Court (333 U. S. 364) decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that '* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted' (p. 393)."

Proposed finding 5 reads:

> "The Supreme Court (393 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gyp-

sum board (expanded in 340 U. S. 76 to cover gypsum products), (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof."

Objection is made to these proposed findings in that:

1. They are inaccurate and misleading in ignoring the fact that the first appeal was at the conclusion of the plaintiff's case and that the Supreme Court's first opinion only dealt with the question whether or not the plaintiff had proved a *prima facie* case such as would require the defendants to proceed with their evidence.

2. They are inaccurate, misleading and inconsistent with prior interpretation of this court in that they include statements from the first Supreme Court opinion which are inapplicable now in view of defendants' proffers of [fol. 1649] proof, which were accepted as true by this court in granting the plaintiff's subsequent motion for summary judgment, and by the Supreme Court's second decision affirming the narrow adjudication of Sherman Act violation as found in the November 7, 1949 decree.

3. They improperly quote from the first Supreme Court's opinion and in doing so are inadequate and misleading in omitting significant portions necessary to accurately describe it.

4. Proposed finding 5 erroneously states that the Supreme Court in its first opinion made a determination against U. S. Gypsum that it had misused its patents; that the effective instrumentalities used by U. S. Gypsum were patent license agreements; that the agreements covered control (a) of prices of patented gypsum board "expanded in 340 U. S. 76 to cover gypsum products", (b) "control or affection of prices of unpatented gypsum products", and (c) control over terms and conditions of sale and distribution thereof.

None of these findings set forth in proposed finding 5 were made or could have been made against U. S. Gypsum in the first opinion without its ever having had an opportunity to present its evidence. Everything said in the opinion with respect to these matters only referred to the *prima facie* case that the Government had made against

all the parties to the license agreements, not just the licensor. Moreover, the ultimate disposition of the case was on the narrow adjudication of law violation by the concerted action of the defendant companies restraining and monopolizing trade in gypsum board. When this court accepted defendants' proffered proof as true, and the Supreme Court, on dismissing U. S. Gypsum's appeal, did likewise (340 U. S. 76 at p. 88), it is improper for the court as presently constituted to refuse to accept the basis [fol. 1650] of the prior action of this court and the Supreme Court and thus rewrite the history of the litigation.

Proposed finding 5 is grossly in error in stating that in 340 U. S. 76, the Supreme Court found that the license agreements covered control of prices of gypsum products as well as patented gypsum board. On the contrary, in dismissing U. S. Gypsum's appeal, the Supreme Court affirmed Article III of the November 7, 1949 decree which expressly limited the adjudication of illegality to the defendant companies' concerted action "to fix, maintain and control the prices of *gypsum board*" and the monopolization of trade in the "gypsum *board* industry." (Emphasis ours.) What the court did in 340 U. S. was to expand the injunctive provisions to future acts in restraint of trade of "gypsum products" as well as "gypsum board". on the theory that the relief may go beyond "the narrow limits of the proven violation."

5. Proposed finding 5 inaccurately states the terms of the old license agreements.

It is suggested that proposed finding 4 be changed to read like the earlier findings of this court with respect to the first Supreme Court decision, as made in the November 7, 1949 decree and again in the May 15, 1951 decree, and that proposed finding 5 be corrected, so that the proposed findings would read:

> 4. The Supreme Court (333 U. S. 364) decided that the Government's *prima facie* case showed that the defendants acted in concert to restrain trade and commerce in the gypsum board industry, and monopolized said trade and commerce, among the several states in the Eastern territory of the United States, which territory embraces all of the states of the United States

westward from the Eastern Coast thereof to the Rocky Mountains, and including New Mexico, Colorado, Wyoming, and the eastern half of Montana.

5. The Supreme Court in its opinion on the Gov- [fol. 1651] ernment's *prima facie* case (333 U. S. 364) held that the concerted action of the defendants in entering into the industry-wide licenses with price fixing provisions, adhered to by the parties with knowledge of adherence of the others, violated the Sherman Act.

(4) Proposed Findings 6 and 7.

Proposed finding 6 reads:

"One result of the patent misuse was to create an economic situation where the conspirators—other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements."

Proposed finding 7 reads:

"When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods."

Objection is made to these proposed findings in that:

1. Without any foundation of fact, they unfairly suggest that the organization of the defendant licensees' manufacturing plants and conditioning of their business upon the continued use of U. S. Gypsum's patents was the result of the misuse of the patents. The record shows that the license agreements included basic patents which were necessary to the production of the improved gypsum board the trade demanded (USG Br., pp. 15 (fn. 12), 23, 26).

2. They erroneously suggest that co-conspirators, as a result of their participation in the conspiracy, are en-

titled to some special consideration and treatment by this court, different and more generous than was accorded [fol. 1652] them in the final decree, which as shown (*supra*, pp. 20-22) is wholly unwarranted.

3. Proposed finding 6 improperly implies that the co-conspirator licensees had been given some "patent rights" in U. S. Gypsum's patents. All that had been given them was a license to use the patents upon payment of a reasonable royalty.

4. Proposed finding 7, in stating that the licensees elected to continue use of "the patented devices and methods," mistakenly implies that U. S. Gypsum's patents were in no sense fundamental product patents but involved only "patented devices and methods." In fact, such licensees continued using U. S. Gypsum's patents which covered the product as well as devices and methods, patents which were essential to the successful production of commercial gypsum board and necessary for them to be competitive with anyone having the right to use the patents (USG Br., pp. 22-23, 26 (Prof. Proof 5, 61, 62).)

5. An inconsistency exists between the proposed findings 6 and 7 and the position which National and Certainteed have taken in the pending Iowa suits, and which Newark and Ebsary apparently also plan to take in the suits against them (Op., p. 22), *i. e.* that they were not using USG's patents during the 1948-1951 period. If this be so (which U. S. Gypsum challenges), then the court's concern for their "uncertain and perilous position" is unwarranted; if the patents were essential to their continued manufacture of gypsum board, then in equity and fairness they should pay for such use.

It is suggested that these proposed findings be modified to read as follows:

> 6. There is an inconsistency in the defendant petitioners' position taken before this court in 1949, *i. e.* that they had organized their manufacturing plants and conditioned their business operations upon con- [fol. 1653] tinued use of U. S. Gypsum's patents, and the position taken in the Iowa suits (and to be taken in the New Jersey and New York suits) that they were not using the patents sued on. Defendants' proffered

proof shows that the patents were basic and that their use was essential in the manufacture and sale of gypsum board.

7. When the Supreme Court (333 U. S. 364) held that the license agreements were *prima facie* violative of the Sherman Act, the defendant licensees elected to disregard the license agreements but nevertheless contiud to use the patents of U. S. Gypsum without the payment of any compensation therefor.

(5) Proposed Findings 9 and 10.

Proposed finding 9 reads:

"After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Defendants USG and Celotex filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered."

Proposed finding 10 reads:

"On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949."

[fol. 1654] Objection is made to these proposed findings in that:

1. They do not accurately describe the proceedings on the remand following the first Supreme Court appeal.

This court has twice recorded those proceedings in finding form (in the preliminary statements of the November 7, 1949 decree and in the final decree—USG Br., Appen. pp. ii, xiv). This court should not now modify the record made by the judges sitting at the time those proceedings occurred.

2. Proposed finding 9 erroneously implies that only defendants U. S. Gypsum and Celotex filed proffers of proof. In fact, Certain-teed and Newark joined in U. S. Gypsum's proffer of proof, and National stood upon the matters set forth in its answer (1950 R. 30-31) which fully supported the proffered proof (1947 R. 214-228).

3. They are inaccurate, misleading and confusing in reporting the proceedings on the motion for summary judgment and on the questions raised with respect to the form of findings of fact, conclusions of law and decree to be entered. Briefs and memoranda were filed in June, 1948, in support of and in opposition to the motion for summary judgment, and the decision of the majority to sustain the motion was made June 29, 1948, and not at the June 14, 1949 hearing as is stated in Proposed Finding 10. Following the filing of the Government's proposed findings, conclusion and decree in November, 1948, and prior to the June 13 and 14, 1949 hearing, defendants National, Certain-teed, Ebsary and Newark, as well as U. S. Gypsum, filed their objections and suggestions as to the findings, conclusions and form of decree.* At the June 1949 hearing, National and Newark requested leave to file additional memoranda, and U. S. Gypsum was granted leave to file answers thereto. The Government also filed a sup- [fol. 1655] plemental memorandum, and U. S. Gypsum replied to that. These were the only memoranda filed between June 14, 1949 and August 12, 1949, and all had to do with the matters discussed at the June 13 and 14, 1949 hearing.

It is suggested that the proposed findings be modified to

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* USG Br. pp. 10-12. The brief states that Newark did not file such a memorandum. This is in error, as the court file will show that it also filed a memorandum on March 3, 1949.

accord with this court's prior statement in the 1949 decree and the 1951 final decree as follows:

> 9. After rehearing was denied (April 5, 1948, 333 U. S. 869) and following the remand, the plaintiff in June, 1948, pursuant to Rule 56 of the Federal Rules of Civil Procedure moved for summary judgment in its favor upon the pleadings and all of the proceedings which theretofore had been in the case or in the alternative for such further proceedings as this court might direct, and defendants, by direction of the court, in June, 1948, filed proffers of proof. Argument by counsel for the respective parties upon the motion of plaintiff was heard by the court on June 29, 1948, and after due consideration of such argument and the defendants' proffers of proof, Garrett, *J.*, and Jackson, *J.*, constituting a majority of the court, announced a ruling on June 29, 1948 to the effect that plaintiff's motion for summary judgment would be granted, and Stephens, *J.*, who presided during the trial, announced his dissent from such ruling. Thereafter counsel for plaintiff and counsel for certain defendants submitted forms of final decree for the consideration of the court and also suggested findings of fact.
>
> 10. In due course, the court heard arguments respecting the proposed decree and suggested findings of fact on June 13 and 14, 1949, and full consideration was given thereto and to all prior proceedings—all being considered in the light of the decision of the Supreme Court which, as understood by the majority of this court, held that the defendants acted in concert to restrain trade and commerce in the gypsum board industry and monopolized such trade and commerce among the several states in that section referred to as the Eastern territory of the United States. Thereafter this court on November 7, 1949, entered its de- [fol. 1656] cree sustaining plaintiff's motion for summary judgment and granting relief which it deemed appropriate to its adjudication.

(6) Proposed Findings 11, 12, 13 and 14.

Proposed finding 11 states that the June 14, 1949 hearing, and the written or printed suggestions and memoranda of the parties filed before, in connection with and after the hearing, had to do, among other things, with the various suggestions as to the form of decree, including the scope and purposes of what later became in substance Articles III, IV and VI of that decree; that practically all of the matters were concerned with prevention of violation in the future after the effective date of the decree; that U. S. Gypsum was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety, and "voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree."

Proposed finding 12 contains four quotations from a USG reply memorandum filed July 23, 1949, attacking the defendant licensees' suggestions that each patent license be adjudged illegal as having no purpose other than to attempt to obtain some advantage with respect to the use of the patents, they apparently believing that "it will relieve them from accounting for anything done either before or after the Supreme Court's decision."

Proposed finding 13 states that the main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the proposed decree should declare only the price-fixing provisions or the entire license agreements illegal; that USG contended strenuously that it be limited to the price-fixing provisions, this appearing not only in its arguments and [fol. 1657] briefs in connection with the June 14, 1949 hearing, but also in its original suggestions as to prospective Articles III, IV, V and VI; that while urging that only the minimum price provision be declared illegal, USG at the same time urged that the agreements should be cancelled as of the date of the decree; and that "the result of and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provisions"; and that "it was in this setting and in relation to

these contentions that USG expressed its apprehensions above set out."

Proposed finding 14 states that the November 7, 1949 decree adopted the contention of the Government and the licensees and declared the agreements illegal, null and void in entirety.

Objection is made to these proposed findings in that:

1. They fail to give a true and accurate description of the controversy between the plaintiff on one side, and the defendants on the other, as to the scope of the adjudication and the provisions to be included in the findings, conclusions and decree to be entered.

2. They inaccurately and unfairly place U. S. Gypsum's contention with respect to Article IV in a false and distorted light, by disregarding all other matters discussed and by completely ignoring the statements and contentions made by the other defendants with respect thereto.

3. They are inaccurate, misleading and unfair in stating that U. S. Gypsum voiced its apprehensions as to whether the proposed provision declaring the licenses illegal, null and void would absolve the petitioners from payment of royalties for the 1948-1951 period. In fact, U. S. Gypsum at no point conceded that such a result would follow, but merely suggested that point as the apparent hope motivating the defendant licensees' position [fol. 1658] 4. In erroneously endeavoring to portray the controversy as one between U. S. Gypsum on one side, and the Government and other defendants on the other, the proposed findings fail to state as a fact that in their written memoranda filed before the June 13 and 14, 1949 hearing, the defendants National, Certain-teed, Newark and Ebsary joined with U. S. Gypsum in proposing that Article IV should declare only the "minimum price provisions" of the licenses illegal.* Moreover, they fail to state the fact that in changing their position at the oral argument, National, Certain-teed, Newark and Ebsary assigned specific reasons for the new position that the agreements be

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* USG Br. pp. 10-12; see also Newark memo filed March 3, 1949.

declared illegal, null and void, but none of them included, as a reason, that it should be done to relieve them of paying royalty or other compensation for the actual use of U. S. Gypsum's patents during the period involved. In fact, there was denial at the hearing that that was one of the reason (USG Br., pp. 13-14).

5. They improperly and erroneously imply that U. S. Gypsum was the only party urging that the existing agreements be "cancelled, as of the date of the decree"—*i. e.*, at a later date than others suggested. All of the forms of decree proposed by all parties provided for formal cancellation of the license agreements on or after the date of the decree.

It is suggested that the proposed findings be modified as follows:

> 11. The hearing on June 13 and 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with, and after that hearing, had to do, among others things, with various suggestions as to the form of decree to be entered, including the scope and purposes of what later became in substance Articles III, IV, V and VI of that decree. Practically all of the discussion was concerned with [fol. 1659] prevention of Sherman Act violations in the future, that is, after the decree had been entered. Among other questions was whether the decree should declare the license agreements illegal, null and void or should condemn only the price fixing provisions thereof.
>
> 12. In the form of decree originally proposed by the Government, there was no provision declaring illegal either the license agreements or the price fixing provisions thereof, the Government's proposed form of decree merely providing for the concellation of the license agreements upon the execution of new license agreements, but in any event within sixty days after entry of the proposed decree, and prohibiting enforcement of them after such cancellation. In the form of decree suggested by defendant USG, proposed Article IV would have declared the minimum price provisions

of the license agreements illegal and cancelled the agreements, and Articles VI and VII provided for negotiation of new licenses. In memoranda filed with this court by Newark on March 3, 1949, and by National, Certain-teed, and Ebsary on March 4, 1949, these defendants approved and adopted Article IV as proposed by U. S. Gypsum, and other provisions of its proposed decree, but objected to its procedure for new licenses set forth in Articles VI and VII.

13. At the June 13 and 14, 1949 hearing, the Government argued for its decree as originally proposed. U. S. Gypsum argued for its proposed decree. The defendant licensees thereupon presented to the court a plan for the presentation, by their respective counsel, of their positions with respect to the matters before the court. Counsel for National, Certain-teed, Celotex, Newark and Ebsary restated positions taken by them in their written memoranda except that they reversed their prior position as to proposed Article IV and urged that the license agreements should be declared illegal, assigning as reasons therefore (a) that the Supreme Court decision had held them to be illegal, (b) that from a practical standpoint it should be done to avoid disputes which would arise in negotiating new agreements, (c) that the example of the *Masonite* decree should be followed, and (d) that [fol. 1660] unless the entire agreement was struck down, the court would be making a new contract for the parties. None of them stated as a reason for the suggested new provision the desire or intention of avoiding payment of royalties or reasonable compensation for actual use of U. S. Gypsum's patents. In fact, attorney Dallstream, speaking for Celotex and Certain-teed in formally presenting the new version of Article IV, gave assurance to the court, and to U. S. Gypsum, that they were not attempting by such a declaration of illegality to find some way of avoiding payment of the license fees which, during this period, none of them had paid (1950 R. 8221). Neither National, Newark nor Ebsary made any disclaimer as to this statement of intention. In its reply argument at

the close of the hearing, the Government accepted the defendant licensees' suggestion and proposed that its form of decree be amended to provide not only that the license agreements be cancelled but also that they be declared illegal, null and void. Subsequent to the hearing, National and Newark filed supplemental memoranda in which they urged that Article IV should declare the agreements illegal for the reasons therein assigned, none of which suggested a purpose or intent to avoid payment for use of U. S. Gypsum's patents. On July 23, 1949, U. S. Gypsum filed its reply to the National and Newark supplemental memoranda, in which it restated the suggestion made at the oral argument that the licensees could have no purpose in making the suggestion that each license be adjudged illegal except to obtain some advantage with respect to the use of the patents, and that they apparently believed it would relieve them from accounting for anything done before or after the Supreme Court decision.

14. Article IV of the decree of November 7, 1949, adjudged each of the license agreements "unlawful under the antitrust laws of the United States and illegal, null and void."

[fol. 1661] (7) Proposed Finding 15.

Proposed finding 15 reads:

"When this Court granted a summary judgment on the remand and entered its decree, both the Government and defendant USG appealed. The decree of November 7, 1949, therefore, never became effective. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment."

Objection is made to this proposed finding in that:

1. It erroneously and inaccurately states that the decree of November 7, 1949 never became effective because of the appeals by the Government and U. S. Gypsum. The Government did not seek a supersedeas in connection with its appeal. The decree operated as a restraint upon the actions of the defendants from November 7, 1949 until the date of U. S. Gypsum's appeal on January 6, 1950, in connection with which a supersedeas order was entered. This supersedeas, however, was not effective after the dismissal of U. S. Gypsum's appeal on May 29, 1950. The finding that the decree of November 7, 1940 never became effective is not supported by the marginal references to this court's opinion.

2. It is inconsistent with this court's statement (Op. p. 16) that "Article IV of that decree nullified completely the license agreements listed in Article II" and is inconsistent with proposed conclusion of law 7, based on that statement.

3. The last sentence of the proposed finding inadequately states U. S. Gypsum's contention on its appeal from the November 7, 1949 decree.

[fol. 1662] It is suggested that proposed finding 15 be changed to read:

> 15. When this court granted a summary judment on the remand and entered its decree both the Government and defendant USG appealed. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. U. S. Gypsum contended that it had not had its day in court and had not been afforded an opportunity to present its evidence to establish that it had not violated the Sherman Act by reason of its industry-wide patent licenses or otherwise.

(8) Proposed Finding 17.

Proposed finding 17 reads:

> "On the appeal by the Government, the Supreme Court altered and broadened some of the provisions

of the decree of November 7, 1949 and remanded the case 'for further proceedings in conformity with the opinion' (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed."

Objection is made to this proposed finding in that:

1. It erroneously implies that the second Supreme Court decision (340 U. S. 76) made indirect reference to the situation now presented to the court. In fact, the opinion did not refer directly or indirectly to U. S. Gypsum's right to be compensated for the use of its patents during the period covered by the U. S. Gypsum suits, although it did expressly affirm the compulsory licensing provisions which conditioned the right to a license under U. S. Gypsum's patents *upon the payment of a reasonable royalty for such use.*

[fol. 1663] 2. It erroneously implies that Article IV of the November 7, 1949 decree was given some special consideration by the Supreme Court, in the light of the inaccurate history of the litigation set forth in earlier proposed findings. The scope of Article IV was not in issue on the second appeal.

It is suggested that the last sentence of the proposed finding 17 be stricken, and that there be substituted in lieu thereof the following:

> In that opinion there was no reference, directly or indirectly, to a situation such as is now presented to the court arising from these USG suits, although the court did expressly approve the compulsory licensing provisions assuring U. S. Gypsum a reasonable royalty for the actual use of its patents. No issue was raised on the second appeal to the Supreme Court with respect to Article IV of the decree of November 7, 1949 of this court declaring the license agreements illegal, null and voil, and Article IV was not changed in the final decree.

(9) Proposed Finding 18.

Proposed finding 18 contains a lengthy quotation from the second Supreme Court opinion (340 U. S. 88-99) setting forth legal principles involved in the respective functions of the trial court and the appellate court in the formation of a decree upon a finding of conspiracy in restraint of trade and monopoly.

Objection is made to this proposed finding as being irrelevant, immaterial and wholly improper as a proposed finding of fact in that:

A quotation from a court opinion stating general principles of law is not in any sense a finding of fact pertinent to the factual issues before this court. The portion of the Supreme Court's second opinion selected for submission [fol. 1664] as proposed finding 18 deals merely with legal principles enunciating the respective functions of the trial court and the appellate court in the formation of decrees.

It is suggested that proposed finding 18 be deleted in its entirety.

(10) Proposed Finding 20.

Proposed finding 20 reads:

> "On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. There was no appeal therefrom. This is the present Final Decree."

Objection is made to this proposed finding in that:

The finding is inadequate in describing the proceedings after the remand following the second appeal that led to the entry of the final decree.

It is suggested that the proposed finding be modified to read as follows:

> 20. Upon the remand following the second Supreme Court opinion (340 U. S. 76) this court ordered counsel for the plaintiff and for the defense to submit forms of decree in conformity with the Supreme Court opinion, and the plaintiff and defendants U. S. Gypsum, National, Certain-teed and Celotex each filed its proposed form of decree. There was no provision

in any of these suggested forms of decree as to whether or not U. S. Gypsum was to receive compensation for the use of its patents during the 1948-1951 period covered by the pending U. S. Gypsum suits. In each form of decree so submitted by the various parties, however, provision was made that for a limited period any applicant could obtain a license to use U. S. Gypsum's patents pertaining to gypsum board, for which U. S. Gypsum should be paid a reasonable royalty. Following negotiations of all parties submitting forms of decrees, a revised form of decree was submitted to the court on May 15, 1951, which was [fol. 1665] acceptable to all parties. Upon consideration of the provisions of the agreed form of decree, and after satisfying itself that the decree conformed to the requirements of the second Supreme Court opinion, and having ascertained that all parties agreed as to the form of decree, this court modified its earlier decree by the entry of the final decree of May 15, 1951. There was no appeal therefrom. This is the present final decree.

(11) Proposed Findings 21 and 22.

Proposed findings 21 and 22 read as follows:

"21. The pattern of the Final Decree of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include 'Patents' and 'Patent Licenses'; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that 'Each of the license agreements listed in Article II hereof is adjudged unlawful under the antitrust laws of the United States and illegal, null and void'; Article V contains the injunction provisions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here; Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reserva-

tion of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

"22. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory court supervised license agreements; by Department of Justice supervisory inspections; and by retention of broad jurisdiction to protect and effectuate the purposes of the Decree."

[fol. 1666] Objection is made to these proposed findings in that:

1. They are inadequate in omitting all reference to the preliminary statement to the decree, which describes the proceedings before this court upon remand following both the first and second Supreme Court appeals, and recites that the adjudication was that "there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof of proffer." (USG Br. Appen. p. iii.)

2. They are inadequate, inaccurate and misleading in their brief description of the various provisions of the decree with reference to the specific issues now before the court.

3. They are inaccurate and misleading in stating that the proposed finding with reference to Article VI "covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the district court," in omitting completely any reference to the fact that such compulsory licenses were to be upon the payment of reasonable royalty for the use of U. S. Gypsum's patents, and in failing to point out that court approval was limited to questions that might arise as to the amounts of the reasonable royalties to be charged for the use of U. S. Gypsum's patents.

4. Proposed finding 22, stating the method or plan of the decree, is inadequate and misleading in describing the injunctive provisions of Article V of the final decree and failing to show that they were to prevent price fixing and

other trade restraints by license agreements or other agreements or understandings and had nothing to do with U. S. Gypsum's right to sue for use of its patents. It is inaccurate and unfair merely to characterize such injunctive provisions as being "against acts which would tend to defeat the Decree", in view of the present issues before [fol. 1667] the court of whether or not the injunctive provisions should be modified and expanded to enjoin U. S. Gypsum from suing for compensation for use of its patents.

5. The condensed statement of the method or plan of the decree (Proposed Finding 22) is also inaccurate and misleading in stating that the decree aimed to remedy the situation "by use of new compulsory court supervised license agreements," without showing that the decree assured U. S. Gypsum compensation for use of its patents, and that the court supervision was only with respect to the amount of the reasonable royalties to be charged for the use of such patents.

6. The condensed statement of the method or plan of the decree is also inaccurate and misleading in describing Article X as the "retention of broad jurisdiction to protect and effectuate the purposes of the decree", in light of the limited scope of the reservation clause in Article X when compared to the much broader reservations of jurisdiction in other antitrust adjudicated and consent decrees (USG Br. p. 39).

It is suggested that the proposed findings be modified to read as follows:

> 21. The pattern of the final decree is as follows: A preliminary statement reviews the proceedings and recites that the basis of the adjudication of Sherman Act violation is that there was concerted action through the fixed-price licenses and accepting as true the underlying facts in the defendants' proof by proffer. Article I is the jurisdictional declaration. Article II contains a definition of terms used in the decree, including "Patents" and "Patent Licenses." Article III declares that the defendants have acted in concert in restraint of trade in the eastern territory of the United States to fix, maintain and control prices of

gypsum board, and have monopolized trade in the gypsum board industry in violation of Sections 1 and 2 of the Act. Article IV states that each of the listed [fol. 1668] license agreements is adjudicated unlawful under the antitrust laws of the United States and illegal, null and void. Article V enjoins the defendants from entering into or performing any agreement or understanding among them or other manufacturers of gypsum products to fix, maintain or stabilize prices or terms or conditions of sale of gypsum products "by patent license agreements or other acts or courses of action," and enjoins certain pricing and selling practices pursuant to such an agreement or understanding. Article VI provides for compulsory licensing at reasonable royalty under U. S. Gypsum's patents or applications for patents relating to gypsum board now owned or controlled by it or issued to, applied for, or acquired by it within five years from the date of the decree. Articles VII and IX are not material here. Article VIII gives the Department of Justice access to certain records of the defendants for the purpose of securing compliance with the decree. Article X reserves jurisdiction for the purpose of permitting application to the court as may be "necessary or appropriate (1) for the construction or carrying out of this decree, and (2) for the enforcement of the compliance therewith."

22. A condensation of the method or plan of the decree to remedy the unlawful situation may be stated as follows: by annulling the named license agreements; by injunction against certain pricing and selling practices by agreement or understanding; by compulsory licensing, on reasonable loyalty, of U. S. Gypsum's patents relating to gypsum board; by Department of Justice supervisory inspections; and by retention of limited jurisdiction to construe, carry out and enforce the decree.

(12) Proposed Finding 23.

Proposed finding 23 reads:

> "USG did not purge the misuse of its licensed patents. USG urges five facts which it claims constitute evidence of purge at a time prior to May 15, 1951. These are as follows:"
>
> [fol. 1669] (Whereupon further proposed findings are stated in separate paragraphs numbered A, B, C, D, and E, which are hereinafter specifically set forth and considered.)

Objection is made to proposed finding 23, and with particular reference to the first three lines thereof, in that:

1. The first sentence erroneously purports to state as a finding of fact what is obviously a conclusion of law with respect to the purging of patent misuse.

2. The proposed finding improperly fails to reflect U. S. Gypsum's contention that not only the five facts, but also their cumulative effect, raise material issues of fact as to purge and evidence of purge.

3. In referring to the five facts urged by U. S. Gypsum, the proposed finding erroneously implies that these were the only facts which U. S. Gypsum claims prove purge at a time prior to May 15, 1951. They overlook, *first,* that these five facts were argued because they were already of record and that there were other facts regarding purge that could be proved at a hearing, and *second,* that they were urged not only as showing purge, but also as being sufficient to preclude as a matter of law, a conclusion of non-purge against U. S. Gypsum on the present record (See discussion, *supra,* pp. 11-17).

No facts pertaining to the issue of purge were before this court or the Supreme Court on the first appeal, and no finding on the issue of purge could have been made against U. S. Gypsum without its ever having had an opportunity to present its evidence. Everything said in that opinion of the Supreme Court (333 U. S. 364) referred only to the record then before the Court on the Government's *prima facie* case. When this court thereafter ac-

cepted defendants' proffered proof as true, and the Supreme Court, on dismissing U. S. Gypsum's appeal, did [fol. 1670] likewise (340 U. S. 76, 87), it is a denial of due process of law for this court to preclude U. S. Gypsum at this time from offering evidence on the issue of purge in addition to the facts already of record.

It is suggested that if any such finding is to be made, the first three lines of proposed finding 23 be modified to read:

> 23. In contending on the present record, and aside from the factual issues of purge raised by the 1953 petitions and answers thereto, not only that this court could find that patent misuse had been purged, but also that the court could not conclude, as a matter of law, that USG has not purged such patent misuse, USG urged five facts of record which it claims constitute evidence of purge, or raise material issues of fact as to purge, at a time prior to May 15, 1951. These are as follows:

(12a) Proposed Finding 23A.

Proposed finding 23A reads:

> "A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue 'until we decide again to exercise our right to do so'; and, second, this price fixing provision is inseparably joined with the other provisions found violative of the Act."

Additional objection is made to this proposed finding in that:

1. The statement that "this price fixing provision is inseparably joined with the other provisions found violative of the Act" is meaningless. It was the price limitation provision itself, and then only when found in industry-wide licenses, that was found violative of the Act. This

supposed reason for ignoring a decade of non-use of the minimum price provision is utterly fallacious.

[fol. 1671] 2. It improperly purports to state as a finding of fact an erroneous conclusion of law. If the minimum price limitation provision is inseparably joined with other provisions found violative of the Act, as the opinion (p. 36) states (citing the *Katzinger* and *MacGregor* cases), that is necessarily a conclusion of law and not a fact.

3. It misleadingly implies that because U. S. Gypsum retained the right to fix minimum prices, its non-use of such a provision for many years has no materiality in dissipating the illegal effects of the patent misuse.

It is suggested that if any finding is to be made as to this fact, the finding should read:

> A. That USG did not fix prices under its licenses after July 8, 1941. This is true. However, its effect is dissipated by the fact that the notices that minimum price bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right to do so." Such long non-use would nevertheless be material to the issue of purge, particularly as to dissipation of ill effects of the patent misuse.

(12b) Proposed Finding 23B.

Proposed finding 23B reads:

> "B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record herein does not support the claim that USG 'acquiesced' in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price fixing provisions were illegal and that, in all other respects, the license agreements should be 'cancelled' only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and [fol. 1672] waived no rights to have 'compensation'

for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed 'acquiescence'."

Additional objection is made to this proposed finding in that:

1. It misconstrues the fact of purge relied on by U. S. Gypsum, which was that the issue is raised in Count III of U. S. Gypsum's suits that shortly after the March 8, 1949 opinion of the Supreme Court the licensees repudiated their licenses and that U. S. Gypsum "acquiesced in that repudiation" (USG Br., pp. 134-135). It was not contended, as the second sentence of the finding purports to state, that USG claimed to have acquiesced in the "cessation of payments by petitioners" for the use of U. S. Gypsum's patents.

2. It contains the confusing *non sequitur* that U. S. Gypsum had not acquiesced in the petitioners' repudiation of the old license agreements following the first appeal because, *first*, it did not acquiesce in their cessation of payments, and *second*, it did not waive its right to compensation for the use of its patents. Those supposed reasons confuse royalties under the old license agreements with U. S. Gypsum's claims for compensation for the use of its patents, whether or not pursuant to licenses. While U. S. Gypsum has never waived its right to compensation for the use of its patents, its actions as shown on this record were consistent with an abandonment of the old licenses shortly after the first appeal, and it should be permitted to introduce evidence on the factual issue joined.

3. It is inadequate and misleading in that it fails to [fol. 1673] describe the abandonment of the old license agreements by the co-conspirators following the first appeal and is, therefore, inconsistent with the last sentence of the proposed finding 7 to the effect that the co-conspirators elected to disregard the old license agreements after

the first appeal and to continue use of U. S. Gypsum's patents.

4. It is inconsistent with material issues of fact appearing on the face of the record with respect to which no evidence has been taken.

5. It inaccurately and unfairly places U. S. Gypsum's contention at the hearings, regarding the form of decree to be entered after summary judgment was granted, in a distorted light by completely ignoring the statements and contentions made by the other defendants with respect thereto (see *supra*, pp. 15, 40-42).

6. It improperly and erroneously implies that U. S. Gypsum was the only party urging that the old agreements be "cancelled only as of the date of the decree to be entered," *i.e.*, at a later date than others suggested. In fact, all of the forms of the decree proposed by all parties provided for formal cancellation of license agreements on or after the date of the decree.

7. It inaccurately and misleadingly fails to state that U. S. Gypsum's suits contain alternative and inconsistent counts including not only counts for recovery of royalties under the old license agreements, but also counts for the recovery of compensation for continued use of U. S. Gypsum's patents on the theory that the old licenses had been cancelled by mutual consent, and also counts for infringement.

8. In stating that U. S. Gypsum's suits included counts for recovery under the unlawful agreements, it fails to note that Counts I and II of U. S. Gypsum's suits were only for royalties for its patents that were *actually used*.

[fol. 1674] It is suggested that if any finding is to be made as to U. S. Gypsum's acquiescence in the repudiation of the illegal agreements by the licensees, the finding should read as follows:

> B. The claimed acquiescence of USG to the repudiation of the illegal agreements by petitioners following the first appeal (333 U. S.). The present record shows the following facts. After the first appeal, the licensees elected to disregard their license agreements and to continue use of the product and process patents of U. S. Gypsum without payment of any

compensation therefor. USG took no steps to enforce those license agreements during the period from 1948-1951, and its actions during that period were consistent in all respects with the licensees' abandonment of the old license agreement. But two of the alternative and inconsistent counts of its current suits seek to recover royalties under the old license agreements for the actual use of its patents by the petitioners. All forms of decree suggested by all parties after the summary judgment was granted provided for formal cancellation of the license, as of the date of the decree to be entered. USG made it clear, both at the 1949 hearing and later, that it expected to obtain and waived no rights to "compensation" for the use of its patents. Not until USG filed its suits against the petitioners was it made clear how USG would seek this compensation. Such suits include alternative and inconsistent counts for recovery of royalties for the actual use of the patents under the license agreements, *quantum meruit* counts for compensation for the use of patents after the old license agreements had been abandoned, and infringement counts. On this record it cannot be concluded whether or not USG acquiesced in the repudiation of the illegal agreements between petitioners.

[fol. 1675] (12c) Proposed Finding 23C.

Proposed finding 23C reads:

"C. The offer by USG, early in the Spring of 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to our period, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until that time that the unlawful license agreements were to be 'cancelled and terminated' (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76)."

Additional objection is made to this proposed finding in that:

1. It uses the confusing expression "as to our period," which has no prior reference in the proposed findings and is equivocal as to the period referred to.

2. It is misleading in purporting to explain that U. S. Gypsum's proffer of new licenses in the early spring of 1949 was not effective in showing purge because under its proffered form of decree the old licenses would have been cancelled only upon entry of the decree, and in implying that others wanted the licenses formally cancelled at an earlier date. All forms of decrees proposed by all parties to this court provided for formal cancellation of the old license agreements in the final decree, either on its effective date or later.

3. It is inadequate, inaccurate and misleading in referring to differences "in several respects" between the proffered forms of licenses and those approved by the Supreme Court and by the final decree, in implying that those differences were substantial rather than incidental, and in failing to point out that the new licenses proffered by [fol. 1676] U. S. Gypsum were free from any improper provisions as regards the matter of purge of patent misuse.

4. It improperly disregards the material issue of fact on the record that the old license agreements had been cancelled by mutual consent of the parties by repudiation by the licensees and U. S. Gypsum's acquiescence in that repudiation before the proffer of licenses by USG.

5. It is inadequate and misleading in failing to show that the new license agreements were again proffered by U. S. Gypsum at the oral hearing on June 14, 1949 and again on July 23, 1949, in a form approved by this court on November 7, 1949.

It is suggested that if any such finding is made, it should read as follows:

> C. That USG, early in the spring of 1949 (February or March), and again on June 14 and July 23, 1949, offered new forms of licenses to its licensees, including National Certain-teed, Newark and Ebsary.

This is true. These forms of proffered licenses contained no provisions objectionable under the anti-trust laws, and the forms of licenses so offered on July 23, 1949, were approved by this court upon the entry of its decree of November 7, 1949. The licenses ultimately approved in the final decree differed only in minor and insignificant respects from the licenses proffered by U. S. Gypsum in early 1949, and approved by this court on November 7, 1949. The forms of decree proposed by all parties at the June 1949 hearing would have formally cancelled the old licenses upon the entry of the decrees or shortly thereafter. The old licenses were adjudged illegal, null and void in Article IV of the November 7, 1949 decree.

(12d) Proposed Finding 23D.

Proposed finding 23D reads:

"D. USG's decision not to appeal from the decree of November 7, 1949, 'unless the Government ap- [fol. 1677] pealed, in which event it felt it would be required to appeal, in self defense.' Neither this unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree 'on the ground of their right to introduce material evidence' (340 U. S. at p. 32); the Government appealed solely 'in an effort to have the provisions of the District Court decree enlarged' (340 U. S. at p. 82)."

Additional objection is made to this proposed finding in that:

1. It inaccurately and erroneously describes the fourth fact of purge relied on by U. S. Gypsum, which actually was the purging effect of this court's decree of November 7, 1949, declaring the old license agreements illegal, null and void and enjoining their performance or enforcement (USG Br. p. 135). Although this court's opinion (p. 16) and the petitioners' proposed conclusion 7, both recognize

the effectiveness of this decree by stating that its Article IV "nullified completely the license agreements listed in Article II," proposed finding 23D ignores U. S. Gypsum's fourth fact of purge and in lieu thereof states that U. S. Gypsum relied upon its decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required to appeal in self defense." Actually, the decision regarding an appeal was only an incidental point raised to refute the suggestion (Cert. Br. p. 53) that U. S. Gypsum could not rely on the November 7, 1949, decree as constituting purge because it appealed from that decree. Moreover, the proposed finding misleadingly quotes a portion of a sentence of U. S. Gypsum's contention in such manner as to imply that its fourth fact had to do solely with its decision not to appeal (see *supra*, p. 13).

[fol. 1678] 2. It erroneously states that the USG and Government appeals involved entirely different legal issues and "situations," overlooking that the issue on U. S. Gypsum's appeal was fundamentally related to the issue on the Government's appeal and that both involved the same decree, and the scope of its adjudication (340 U. S. 76, 81-88).

3. It fails to point out that U. S. Gypsum's appeal was dismissed on May 29, 1950 (339 U. S. 959).

4. It improperly disregards a material issue of fact on this record whether U. S. Gypsum had decided not to appeal and the reasons why it finally did appeal from the November 7, 1949, decree.

It is suggested that if any such finding is made, it should read as follows:

> D. The decree of November 7, 1949, declaring the old license agreements illegal, null and void. On November 7, 1949, this court's decree was entered adjudicating the licenses to be illegal, null and void and enjoining their enforcement. U. S. Gypsum had decided to accept this decree and not to appeal, but when the Government appealed for enlarged relief on January 6, 1950, U. S. Gypsum also appealed and questioned the validity of the adjudication of law violation, believing such action a necessity in resist-

ing the Government's appeal for enlarged relief. U. S. Gypsum's appeal was subsequently dismissed by the Supreme Court (339 U. S. 959) which affirmed Article III of the decree of November 7, 1949, and enjoined the corporate defendants from enforcing the price fixing provisions of the licenses pending further order of the court.

(12e) Proposed Finding 23E.

Proposed finding 23E reads:

"E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from 'enforcing [fol. 1679] in any manner whatsoever' the price provisions of the license agreements. The USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements."

Additional objection is made to this proposed finding in that:

1. It inadequately and inaccurately describes the Supreme Court's decision and order in 339 U. S. 960 as enjoining only U. S. Gypsum. It enjoined "the corporate defendants," including the petitioners as well as U. S. Gypsum.

2. It contains the *non sequitur* that the Supreme Court's order of May 29, 1950, enjoining the corporate defendants from enforcing the *price provisions* of the old license agreements, had no effect on purge because supposedly U. S. Gypsum's suits seek to enforce "the *royalty provisions*" of the old license agreements. This *non sequitur* is urged despite the fact that no one has ever contended that U. S. Gypsum's suits violated the Supreme Court's order, or, in view of its earlier dissolution, could have violated it.

3. It is misleading and inaccurate in stating that U. S. Gypsum's suits now pending are to enforce "the royalty provisions" of the old license agreements. Those suits, which state alternative and inconsistent counts, involve no counts to enforce strictly the royalty provisions of the

old license agreements (which required royalty to be paid on *all* gypsum board made whether or not patented or made by use of the patents). All counts (including I and II) in the pending suits seek only compensation for the actual use of the patents.

4. It improperly purports to imply as a finding of fact an erroneous conclusion of law that U. S. Gypsum is misusing its patents, as a matter of law, by the mere bringing [fol. 1680] of money actions to recover compensation for their use. (See *supra*, pp. 2-10.)

5. It fails to point out that the Supreme Court, on remand of the Government's appeal, extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree" (See Op. p. 3, Proposed Finding 19).

It is suggested that if any such finding is made, it should be modified to read as follows:

> E. The Supreme Court order of May 29, 1950. The Supreme Court (339 U. S. 960) on May 29, 1950, enjoined the corporate defendants, including U. S. Gypsum, National, Certain-teed, Newark and Ebsary from "enforcing in any manner whatsoever" the price provisions of the license agreements. This order was later continued until the date of the entry of the final decree. No claim is here made that it was not fully complied with by the corporate defendants, including U. S. Gypsum.

(13) Proposed Finding 24.

Proposed finding 24 purports to describe the U. S. Gypsum suits against National, Certain-teed, Ebsary and Newark. The third sentence reads:

> "Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement."

Objection is made to the third sentence of the proposed finding in that it is inadequate in failing to show that the

claims asserted in the various counts were "alternative and inconsistent," as provided for in Rule 8 (e) (2) of the Federal Rules of Civil Procedure.

It is suggested that the third sentence of proposed finding 24 be modified by inserting the words "and inconsistent" after the word "alternative."

[fol. 1681] (14) Proposed Finding 25.

Proposed finding 25 reads:

> "In these suits USG seeks judgment against National for $1,600,000; against Certain-teed for $650,000; against Ebsary for $245,000; against Newark for $285,000; and interest and costs of the suit against each Petitioner."

Objection is made to this proposed finding in that:

1. It erroneously states that U. S. Gypsum seeks judgment against Ebsary for $245,000, whereas in fact the claim was $100,000 on Counts I and II, and in the alternative, $160,000 on Counts III, IV and V, and a claim for $85,000 on Count VI.
2. It erroneously states that U. S. Gypsum seeks judgment against Newark for $285,000, whereas in fact the claim was $120,000 on Counts I and II, and, in the alternative, $185,000 on Counts III, IV and V, and a claim for $100,000 on Count VI.
3. It erroneously states that U. S. Gypsum seeks interest against each petitioner, whereas the complaints seek interest only on Counts I, II, III and IV and not on Counts V and VI.

It is suggested the proposed finding be modified to read as follows:

> 25. In these suits USG seeks judgment against National for $1,600,000; against Certain-teed for $650,000; against Ebsary for $100,000 on Counts I and II and in the alternative $160,000 on Counts III, IV and V, and $85,000 on Count VI; against Newark for $120,000 on Counts I and II and in the alternative $185,000 on Counts III, IV and V, and $100,000 on

Count VI; and interest (except as to Counts V and VI) and costs of suit against each defendant.

[fol. 1682] (15) Proposed Finding 26.

Proposed finding 26 reads:

"USG also asserted claims against the Celotex Corporation and against Kaiser Gypsum Company for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951."

Objection is made to this proposed finding in that:

It purports to describe irrelevant and immaterial facts concerning U. S. Gypsum's claims against two companies one of whom has no concern of any kind with Civil Action 8017, and neither of whom is a party to any of the petitions presently before the court.

It is suggested that this proposed finding be omitted.

(16) Proposed Finding 28.

Proposed finding 28 reads:

"The first two counts of all four petitions are directly based on the license agreements set forth in Article II of the decree of November 7, 1949."

Objection is made to this proposed finding in that:

1. It misleadingly fails to refer to the facts, *first*, that Count I is only for royalties on gypsum board made by the actual use of one or more of U. S. Gypsum's patents (see paragraphs 6 and 7, Count I), and not on all gypsum board manufactured, whether or not patented or made with use of the patents, as provided in the old license agreements, and *second*, that Count II is not based directly on the old license agreements but rather upon a modified agreement reached after February 1, 1948, by and between U. S. Gypsum and each of its former licensees (see paragraph 3, Count II).

2. It inaccurately implies that Counts I and II of U. S. [fol. 1683] Gypsum's suits are connected in some manner with the decree of November 7, 1949.

It is suggested that the proposed finding be modified to read as follows:

> 28. Counts I and II of each of U. S. Gypsum's suits seek to recover royalties on gypsum board embodying or made by the use of inventions disclosed in one or more of U. S. Gypsum's patents, and not on all gypsum board whether or not patented or made with the use of the patents as provided in the old license agreements. However, with that qualification, in each of the four suits Count I does seek royalty under a license agreement declared illegal, null and void in the November 7, 1949 decree and the final decree, and Count II of each suit seeks to recover royalties under the agreement referred to in Count I, as modified by agreement of the parties after February 1, 1948.

(17) Proposed Finding 29.

Proposed finding 29 reads:

> "Count III of the USG petitions is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements."

Objection is made to this proposed finding in that:

1. It erroneously implies that U. S. Gypsum is attempting to recover indirectly under Count III what the court has held could not be recovered under Counts I and II.

2. It erroneously overlooks the fact that Count III in each of the pending U. S. Gypsum suits expressly alleges that the defendant in early 1948 (February 1 as to National and Newark, March 1 as to Ebsary, and April 1 as to Certain-teed) "repudiated" its old license agree- [fol. 1684] ments, "discontinued" the payment of all royalties payable thereunder, and "refused to be bound" by any provision thereof; that U. S. Gypsum "acquiesced in such repudiation"; that "thereafter each of the parties

thereto treated the license agreement as rescinded and no action was subsequently taken by either of them to comply with or to enforce any of the provisions thereof or to require the other to perform"; that the defendant nevertheless continued to use U. S. Gypsum's patent or patents and promised to pay the reasonable value of the use thereof. (See paragraph 5, Count III of National, Ebsary and Certain-teed complaints and paragraph 6, Count III, Newark complaint.) The use of the patents for which compensation is sought in Count III, then, is for a period subsequent to the repudiation of the old license contracts and for which there could have been no claim for recovery under those contracts.

3. It is erroneous in failing to recognize U. S. Gypsum's repeated statements to this court (6/9/53 hearing, Tr. 25; 1/13/54 hearing, Tr. 142; USG Br. p. 85) that Count III was based upon the use of U. S. Gypsum's patents, *after the rescission of the old license agreements* and under circumstances from which the law would imply a promise to pay reasonable compensation for the use of the patents, and was therefore another count for a *quantum meruit* recovery. This is the customary way in which to plead a contract implied in law.

4. It erroneously, inaccurately and misleadingly states that the supposed "pleaded express" contract and relief sought are so stated and designed to bring about identical recovery that would be realized had the actions been for recovery upon royalties provided in the illegal agreements, in that:

(a) As shown (see proposed finding 25, *supra*, p. 63), the *ad damnum* in the Newark suit is $185,000 [fol. 1685] on Count III but only $120,000 on Counts I and II, and in the Ebsary suit $160,000 on Count III but only $100,000 on Counts I and II; and

(b) The significance attributed to the similarity in *ad damnum* clauses in the other suits overlooks recognized legal principles and that the same quantities are involved. (See *supra*, pp. 8-9.)

5. It erroneously fails to recognize that each suit states separate claims that are alternative and inconsistent. See discussion *supra*, pp. 6-8.

It is suggested that proposed finding 29 be modified to read as follows:

> 29. Count III of the USG complaints is a common law action of *indebitatus assumpsit* seeking recovery of the reasonable value for the use of USG's patents on the pleaded facts that *first*, that the licensee had "repudiated" its license, discontinued payment of royalty thereunder and refused to be bound by any provisions thereof, that USG had acquiesced in such repudiation, and that both parties thereafter treated the old license agreement as rescinded, and thereafter neither complied with or enforced it; and *second*, that the licensee nevertheless continued to use USG's patent or patents and promised to pay to USG the reasonable value of the use thereof. The relief sought in Count III in the National and Certain-teed suits is the same as under Counts I and II, because the quantity of gypsum board involved was the same and a promise will not be implied to pay more compensation than had been agreed to by arm's length negotiations for the use of the same patent or patents prior thereto (and also subsequently). The relief sought in Count III of the Ebsary and Newark suits is substantially more than under Counts I and II because of the different periods of time involved.

[fol. 1686] (18) Proposed Finding 30.

Proposed finding 30 reads:

> "Count IV of the USG complaints is for *quantum meruit* covering the use of the patents."

Objection is made to this proposed finding as inadequate and inaccurate in that:

It fails to describe Count IV as a common law common count for recovery of the reasonable value for the use of U. S. Gypsum's patent or patents.

It is suggested that proposed finding 30 be modified to read as follows:

> 30. Count IV of the USG complaints is for a common law common count for *quantum meruit* recovery of the reasonable value for the use of USG's patents.

(19) Proposed Finding 32.

Proposed finding 32 reads:

> "The amounts sought in Counts III-V of these suits for the period prior to the Final Decree is precisely the same as the amounts sought as royalties in Counts I and II, which are the amounts provided for and measured by the old unlawful license agreements."

Objection is made to this proposed finding in that:

1. It erroneously states that the amounts sought in Counts III-V of these suits "is precisely the same as the amounts sought as royalties in Counts I and II." As shown in the Ebsary complaint $160,000 is sought in Counts III-V but only $100,000 in Counts I and II, and in the Newark complaint $185,000 is sought in Counts III-V but only $120,000 in Counts I and II. (See objection to proposed finding 25, *supra*.)

2. It erroneously and misleadingly fails to point out the [fol. 1687] reasons why the amounts sought in Counts III-V of the National and Certain-teed complaints are precisely the same as in Counts I and II, *i. e., first*, because of the established legal principle that reasonable compensation for the use of a patent cannot exceed the royalty rate for use of the same patent established in arm's length negotiations, both before and after the period in question here, and *second*, because the same quantities of gypsum board were involved in each of the alternative and inconsistent counts in each suit (see discussion, *supra*, pp. 8-9).

3. It erroneously states that the amounts sought as royalties in Counts I and II "are the amounts provided for and measured by the old unlawful license agreements." Neither Counts I nor II seek the royalty "measured" by the old license agreement—Count I seeks royalties for patents actually used while the old license required royalty

on all gypsum board made and sold whether or not patented or made with use of the patents, Count II seeks royalties for actual use of the patents pursuant to a modification of the old license agreements as agreed to by the parties thereto on or after February 1, 1948. (See objection to proposed finding 28, *supra*.)

It is suggested that proposed finding 32 be deleted.

(20) Proposed Findings 33 and 34.

Proposed findings 33 and 34 read:

> "33. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,-022. The USG suits against Newark Plaster Company and Ebsary Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338, 2,080,009 and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents [fol. 1688] were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.
>
> "34. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. This patent was an improvement patent and, as such, was subject to inclusion under paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488.)"

Objection is made to these proposed findings in that:

1. The last sentence of finding 33 erroneously states that all four of the patents there mentioned, including Patent No. 2,044,401, were licensed by U. S. Gypsum under one or more of the old license agreements, and the last sentence of finding 34 also erroneously states that Patent No. 2,044,401, as an improvement patent, was included in

pargraph 18 of the Newark and Ebsary licenses. That patent was not specifically licensed by U. S. Gypsum in any of the old license agreements described in paragraph 5 of Article II of the final decree. While paragraph 18 of the Newark and Ebsary licenses did provide that improvement patents meeting certain criteria were to come within those licenses, whether or not Patent No. 2,044,401 came within paragraph 18 could not possibly have been determined by the court without it taking evidence showing that the conditions of paragraph 18 either had or had not been met.

2. Proposed finding 34 erroneously and improperly described the patent as relating "to the use of dextrinized starch."

It is suggested that the last sentence of proposed finding 33 be modified to read:

> [fol. 1689] Patent Nos. 2,017,022, 2,079,338 and 2,080,009 were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

and that proposed finding 34 be modified to read:

> Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of partially dextrinized starch or a partially dextrinized farinaceous, gelable adhesive in gypsum board core composition and method of manufacturing such board. This patent was an improvement patent and as such was subject to inclusion under paragraph 18 of the licenses to Newark and Ebsary (see transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488), but whether or not it was so included could not be determined without the taking of further evidence.

(21) Proposed Finding 38.

Proposed finding 38 reads:

"The United States has filed a petition to enjoin USG from asserting any claim or suit 'in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof.' As to any claims based on such license agreements, the United States alleges that such 'are barred by, and constitute an attempt to defeat, said decree.' As to any 'alternative claims' set forth in such four suits, the United States 'takes no position' as to whether or not they are barred by the Final Decree."

Objection is made to this proposed finding in that:

The third sentence inadequately describes the position of the United States in its petition with respect to the alternative and inconsistent claims.

It is suggested that the third sentence of proposed finding 38 be modified to read as follows:

[fol. 1690] As to any "alternative claims" set forth in such four suits, the United States "takes no position as to whether such alternative claims are barred by this court's final decree of May 15, 1951, or as to whether this court should enter an order enjoining USG from prosecuting such alternative claims."

B. Petitioners' Proposed Conclusions of Law.

(1) Proposed Conclusions 1-6 (Jurisdiction).

Proposed conclusion 1 reads:

"Defendant petitioners are parties to the original Anti-Trust suit asserting rights under the Final Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such rights in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree."

Proposed conclusion 2 is that this court has jurisdiction because of the express reservation contained in Article X of the final decree.

Proposed conclusion 3 is that, in addition to the expressly reserved jurisdiction, this court has jurisdiction to entertain and determine the issues presented by petitioners because of the inherent power of a court of equity to compel obedience to its decrees.

Proposed conclusion 4 is that this court has jurisdiction to entertain and determine the issues presented by petitioners because of its jurisdiction to implement the final decree to effectuate its basic purposes, and that one method to do that is by petition in the original action.

Proposed conclusion 5 reads:

> "This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the [fol. 1691] long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree."

Proposed conclusion 6 is that the fact that petitioners might urge the final decree as a defense in the USG suits does not affect this court's jurisdiction; it is relevant merely on the question whether or not the jurisdiction should be exercised.

Objection is made to the proposed conclusions 1 through 6 for the reasons that they erroneously state the law applicable to the pending petitions and answers thereto and erroneously conclude that this court has jurisdiction to consider and determine the issues presented by such petitions and answers (see USG Br. pp. 38-68). In addition thereto, the following specific objections are made:

1. Proposed conclusion 1 is inaccurate and misleading in that it attempts, by selecting sentences from different

parts of the opinion, to state a conclusion, under the heading of jurisdiction, that the defendant petitioners were given substantive rights under the original decree. The first and third sentences of Proposed Conclusion 1 are taken from that portion of the opinion dealing with the matter of jurisdiction reserved by Article X of the final decree. The second sentence is a partial and inaccurate statement taken from the court's discussion of jurisdicdiction principles generally applicable to antitrust actions, in that it fails to show that the statement selected was made as an exception to the basic principle that the [fol. 1692] Attorney General is the representative of the "public interest" in antitrust cases brought by the Government.

2. Proposed conclusion 5 erroneously states that jurisdiction to prevent multiplicity of actions is present here because of the four USG suits "and also the claims against Celotex and Kaiser." No suits have in fact been brought against Celotex and Kaiser, and neither of them is a party to this proceeding. No reference should be made to either of them.

It is suggested that there is no occasion for the court to do more than to state the simple conclusion of law that:

> This court has jurisdiction of the parties and of the subject matter involved in the petitions pending before it.

(2) Proposed Conclusion 7 (Scope of Article IV).

Proposed conclusion 7 reads:

> "Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG is enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV."

Objection is made to proposed conclusion 7 in that:

1. It incorrectly states the law with respect to the effect of Article IV (see USG Br. pp. 68-86) and erroneously concludes that Counts I and II in each of the pending suits brought by U. S. Gypsum clearly violate the express provisions of Article IV (USG Br. pp. 68-86).

2. It erroneously concludes that U. S. Gypsum should be enjoined from further prosecuting Counts I and II. [fol. 1693] 3. It is inadequate, inaccurate and misleading in failing to state fully the court's conclusion of law (p. 25) that Article IV "did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*" and consequently did not afford a basis for enjoining prosecution of Counts III, IV, V and VI.

It is suggested that if proposed conclusion 7 is to be included, it should be supplemented by the following three additional sentences:

> Article IV of the final decree did not expressly or impliedly cover the character of suits now brought by USG for infringement or for *indebtitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such. It does not furnish a firm ground or basis for enjoining further prosecution of Counts III, IV, V and VI of such suits.

(3) Proposed Conclusions 8-10 (Modification).

Proposed conclusion 8 reads:

> "The purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree."

Proposed conclusion 9 reads:

> "The power to make any proper modification of the Final Decree is expressly reserved in Article X of the Decree. Article X performed the function of expressly reserving jurisdiction to take further action if experience thereafter should make such necessary or advisable fully to effectuate the purposes of destroying [fol. 1694] the monopoly and the conspiracy and denying the fruits thereof. The Court has power to make any modification which will, 'so far as practicable, cure the ill effects of the illegal conducts * * *.' (340 U. S. at pp. 88-89)."

Proposed conclusion 10 reads:

> "In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify its decrees so as to make them fully effective."

Objection is made to proposed conclusions 8, 9 and 10, for the reasons that they erroneously state the law applicable to the pending positions and answers thereto, and erroneously conclude that this court has the power to modify the final decree of May 15, 1951 as requested in the pending petitions. In addition thereto, the following specific objections are made:

1. Proposed conclusion 8 is irrelevant and improper in that it consists merely of selected sentences from a general statement in the opinion as to the differences between implementation and modification of a decree which are not, and were not intended to be, stated as propositions of law. In fact, the second and third sentences are statements of fact rather than law.

2. Proposed conclusion 9 is inaccurate, improper, confusing and misleading in that:

> (a) It consists of partial statements selected out of context from three different parts of the opinion, each dealing with different matters.
>
> (b) The first sentence is deficient in failing to disclose any standards as to what would be a "proper" modification, and omits any reference either to the

tests that this court lays down in its opinion or that are specifically written into Article X of the final decree, *i. e.*, to construe, carry out and enforce the decree (Op. p. 23).

(c) The second sentence is misleading in being [fol. 1695] taken out of context in the opinion. This statement was made in connection with the further statements that the violations of the Act are declared in Article III which "is the heart of the final decree" and that the other articles concern remedies and methods which the Supreme Court and this court then thought sufficient to cure the unlawful conspiracy and monopoly. Article III found law violation in the concerted action of the defendant companies, the remedies in the other articles being directed to prevention of such law violation in the future. Neither Article III nor the remedies dealt with the "rights" which co-conspirators are now asserting against U. S. Gypsum. The Supreme Court quotation, which this court's opinion was paraphrasing in referring to "denying the fruits thereof," had actually stated that "the *conspirators* should so far as practicable be denied the future benefits from their forbidden conduct." (Emphasis ours.) This clearly was referring to a protection of the public interest, not to giving one or a group of co-conspirators a windfall as against another.

(d) The third sentence is inaccurate, improper and misleading in that it misquotes the Supreme Court by using language of that Court as applying to a modification of the decree, when in fact it dealt with drafting original decrees. Moreover, it stops the Supreme Court quotation in the middle of a sentence and omits words which characterize the import of the Court's statement, namely, that this should be done to assure the "public" freedom from any continuance of the ill effects of the illegal conduct. Thus the full sentence reads:

> "A trial court upon a finding of a conspiracy in restraint of trade and a monopoly has the duty to compel action by the conspirators that will, so

far as practicable, cure the ill effects of the illegal conduct, and assure the public freedom from its continuance." (340 U. S. 88.)

This statement of the Suppreme Court is as inapplicable to the requested modification of this decree as is the doctrine of misuse of patents (also designed for [fol. 1696] the protection of the public) to co-conspirators' attempts to avoid payment for their use of U. S. Gypsum's patents.

3. Proposed conclusion 10 is inadequate and improper in failing to include the fundamental limitation that "a decree may not be enlarged, beyond its intended proper scope, by the medium of modification" (Op. p. 24).

It is suggested that if any such conclusions of law are to be stated they should be confined to the following:

Article X of the final decree of May 15, 1951, expressly reserved jurisdiction in this court to enable any of the parties to the decree to apply to the court at any time for such orders, modifications, vacations or directions as may be necessary or appropriate (1) for the construction or carrying out of the decree, and (2) for the enforcement of compliance therewith. Such reservation of jurisdiction was sufficient to enable the court to take such further action as might be necessary or advisable to effectuate the purposes of the decree.

In addition to such expressly reserved power, this court, as a court of equity, has inherent power to modify its decree so as to make it fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope by the medium of modification.

(4) Proposed Conclusion 11 (Modification)

Proposed conclusion 11 reads:

"The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case, establish that USG did not purge itself of its patent

misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge."

[fol. 1697] Objection is made to this proposed conclusion in that:

1. It erroneously concludes, without the taking of evidence on this factual issue, that U. S. Gypsum did not purge itself of its patent misuse at any time prior to May 15, 1951.

2. It erroneously concludes that the five Acts "claimed by USG to constitute acts of purge prior to May 15, 1951" do not constitute purge. This not only misconstrues USG's position but also misconstrues the acts relied on.

These errors are discussed, *supra*, pp. 11-17, 50-62.

It is suggested that this proposed conclusion be deleted.

(5) Proposed Conclusion 12 (Modification).

Proposed conclusion 12 reads:

"In view of the misuse by USG of its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecutions of all Counts of these actions."

Objection is made to this proposed conclusion in that:

1. It erroneously concludes that USG's patent misuse has not been purged.

2. It erroneously concludes that all claims of USG are barred and that it should be enjoined from further prosecution of all counts of "these actions."

3. It is inconsistent with the court's conclusion (Op. p. 22) that the Newark and Ebsary counts for infringement since the date of the final decree should not be enjoined.

These errors are discussed, *supra*, pp. 11-17, 50-62.

It is suggested that this proposed conclusion be deleted.

[fol. 1698] (6) Proposed Conclusion 13 (Modification)

Proposed conclusion 13 reads:

> "The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-Trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree."

Objection is made to this proposed conclusion that:

1. It erroneously concludes that U. S. Gypsum has continued after May 15 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time.
2. It erroneously concludes that the attempt by U. S. Gypsum to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents.
3. It erroneously concludes that the misuse of U. S. Gypsum's patents yet continues.
4. It erroneously concludes that to allow prosecution of these suits would weaken the effectiveness of the final decree.

These errors are discussed, *supra,* pp. 2-11.

It is suggested that this proposed conclusion be deleted.

(7) Proposed Conclusion 14 (Modification).

Proposed conclusion 14 reads:

> "Count III of the USG petitions, for *indebitatus assumpsit,* is but a left-handed, indirect method for [fol. 1699] recovering the royalties provided in the illegal license agreements. The Decree should be modified to enjoin prosecution of Count III of the USG petitions."

Objection is made to this proposed conclusion in that:

1. It erroneously concludes that Count III of the USG "petitions" is but a left-handed, indirect method for recovering the royalities provided in the illegal license agreements. Actually, Count III seeks recovery of reasonable compensation for use of the patents after the illegal contracts were rescinded by the parties and therefore for a period on which there could not possibly have been a recovery under the old license agreements.

2. The decree erroneously concludes that the final decree should be modified to enjoin prosecution of Count III.

These errors are discussed, *supra,* pp. 10-11, 17, 65-69.

It is suggested that this proposed conclusion be deleted.

(8) Proposed Conclusion 15 (Modification).

Proposed conclusion 15 reads:

> "Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-Trust suit is shown, as a matter of law, to exist and not have been purged."

Objection is made to this proposed conclusion in that:

1. It erroneously enjoins the further prosecution of Count IV, a *quantum meruit* count, of USG's "petitions."

2. It would erroneously enjoin prosecution of Count IV on the basis of preventing recovery in a multiplicity of suits.

3. It erroneously concludes that as a matter of law misuse of patents is shown here to exist and not to have been purged.

[fol. 1700] These errors are discussed, *supra,* pp. 10-11, 17.

It is suggested that this proposed conclusion be deleted.

(9) Proposed Conclusion 16 (Modification).

Proposed conclusion 16 reads:

> "Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits."

Objection is made to this proposed conclusion in that:

1. It erroneously concludes that the "practical and legal situation in this case" compels a modification of the final decree to prohibit the prosecution of USG's suits in so far as they are based on patent infringement during the period covered by those suits.
2. It erroneously concludes that such a modification of the decree is also compelled by the teaching in the *Hartford-Empire* case. The teaching in that case compels a dismissal of the petitions, so as to permit U. S. Gypsum to recover reasonable compensation for the use of its patents *pendente lite*, as was permitted in *Hartford-Empire*.
3. It erroneously concludes that the final decree should be modified to prohibit prosecution of USG's suits in so far as they are based on patent infringement during the period covered by those suits.
4. It would erroneously prohibit prosecution of the patent infringement suits against Newark and Ebsary during the period subsequent to May 15, 1951, which is contrary to this court's opinion (p. 22).

These errors are discussed, *supra*, pp. 17-22.

It is suggested that this proposed conclusion be delated.

[fol. 1701] C. Petitioners' Proposed Decree.

Petitioners have submitted a proposed decree which, after a brief recital of the filing of the petitions and answers thereto, the court's consideration thereof and of the oral arguments and briefs submitted, and the rendering of the majority and dissenting opinions on July 6, 1954, would order, adjudge and decree, (1) that the court has jurisdiction of the subject matter of the petitions,

and (2) that the final decree of this court of May 15, 1951 be modified by:

(a) adding to Article II a paragraph 6 defining "misused patents".

(b) adding to Article V two additional paragraphs: one (marked B) ordering U. S. Gypsum to dismiss with prejudice its pending actions against National, Certain-teed, Newark, and Ebsary; and another (marked C) enjoining and restraining U. S. Gypsum from instituting, threatening or continuing any action against any person, firm or corporation for payment for use of its misused patents alleged to have occurred prior to May 15, 1951; and

(c) adding to Article IX a sentence assessing costs against U. S. Gypsum.

Objection is made to the proposed decree in that the suggested amendment of the final decree to give the relief sought by the defendant petitioners is erroneous, improper and contrary to law for the reasons set forth and discussed in Part I of this memorandum, and for the specific objections set forth and discussed in Part II hereof with respect to the proposed findings and conclusions.

In addition thereto the following specific objections are made:

1. There is no need for an additional paragraph defining "misused patents." There has been no prior finding of this court against U. S. Gypsum that it has misused its patents, but on the contrary, in holding [fol. 1702] that there was law violation by the concerted action of the defendant companies through the fixed-price licenses, this court, and the Supreme Court, accepted as true the defendants' proffered facts, which are inconsistent with any specific finding of patent misuse against U. S. Gypsum. It is error for this court, without taking any evidence, to make findings inconsistent with the prior determinations of this court.

2. The proposed amendments to Article V of the final decree, are erroneous, improper, and contrary to law, in enjoining U. S. Gypsum from seeking a reasonable compensation for actual use of its patents, not

only by the defendant petitioners, but also by any other person, firm or corporation, prior to May 15, 1951.

3. The proposed amendments to Article V are erroneous, improper, and contrary to law and to this court's opinion, in enjoining U. S. Gypsum from the prosecution of its pending suits against Newark and Ebsary as to alleged infringement of its patents during the period subsequent to May 15, 1951.

4. If this court construes Article IV of the final decree as prohibiting Counts I and II of U. S. Gypsum's pending suits, an amendment is not needed to enjoin prosecution of those counts: at most, there would be added to Article IV the words "and the parties thereto are enjoined and restrained from the further performance or enforcement of any of the provisions of said patent licenses."

5. The proposed amendment of Article IX to assess against U. S. Gypsum all costs arising out of the proceedings instituted by petitioners for a construction and amendment of the final decree, to their great financial benefit, is unfair and inequitable.

[fol. 1703] CONCLUSION.

The foregoing objections and suggestions raise substantial questions of law and fact as to the correctness of this court's opinion of July 6, 1954, and the proposed findings of fact, conclusions of law, and decree based on it. Before the ruling is formalized by the entry of any such findings, conclusions or decree, U. S. Gypsum respectfully urges the court to reconsider its opinion in the light of the objections and suggestions herein stated, and to that end suggests that the matter be set down for further argument at a date convenient to the court.

Respectfully submitted, Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for United States Gypsum Company.

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[fol. 1704] UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

[Title Omitted]

NATIONAL GYPSUM COMPANY'S MEMORANDUM IN ANSWER TO UNITED STATES GYPSUM COMPANY'S OBJECTIONS AND SUGGESTIONS WITH RESPECT TO PETITIONERS' PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW AND DECREE—Filed October 11, 1954

This memorandum is filed in answer to U. S. Gypsum's Memorandum, filed September 17, 1954, of objections and suggestions with respect to the findings, conclusions and decree proposed by petitioners National and Certain-Teed on August 16, 1954.

The Court's opinion, filed July 6, 1954, concluded: "Petitioners are granted thirty days from the filing of this opinion, to serve upon opposing counsel and to file with this Court, suggested form of decree and form of Conclusions and Findings." Thereafter, upon consent of petitioners National and United States of America, an order was entered on July 27, 1954, that "the respondent United States Gypsum Company shall have to and including September 17, 1954 within which to serve upon petitioners' counsel and file with the Court objections or suggestions [fol. 1705] with respect to the form or forms of Decree and form or forms of Conclusions and Findings so served upon its counsel by the petitioners or any of them".

USG's Memorandum, filed on September 17th, goes beyond the authority of this order; in addition to setting forth objections and suggestions regarding the form of the proposed findings, conclusions and decree, it reargues issues determined by the Court's opinion of July 6th.

In this memorandum we shall briefly discuss USG's objections and suggestions with respect to the form of petitioners' proposed findings, conclusions and decree, in that order. No comment, however, will be made with respect to those objections and suggestions which go to substantive questions already decided by this Court.

Findings

Petitioners proposed 38 findings of fact. Almost all are in the language of the Court's opinion. They are arranged to set forth chronologically, insofar as possible, the events in this suit bearing upon the issues raised by the petitions.

PF* 1 to 8 cover the period in this suit through the Supreme Court's opinion in 333 U. S. PF 9 to 22 carry the history of the litigation from that point to the entry of the Final Decree of May 15, 1951. PF 23 relates to facts which USG claims constitute purge at a time prior to the Final Decree. PF 24 to 38 relate to the post-Final Decree period.

Of the 38 proposed findings, USG makes no objection to PF 3, 8, 16, 19, 27, 31, 35-37, or a total of 9 proposed findings.

USG's objections with regard to the remaining 29 proposed findings may be divided into four classes. First, [fol. 1706] proposed findings to which USG objects because they are allegedly "inadequate", "misleading", and have improper "implications"; second, proposed findings which are allegedly "irrelevant and immaterial"; third, proposed findings which are allegedly erroneous because one of the Court's holdings is allegedly erroneous; and fourth, proposed findings which USG claims have no support in the record. Each of these four classes of objections will be discussed in turn.

1. Proposed Findings Allegedly "Inadequate", "Misleading" or Having Improper "Implications".

The objections which USG makes to the great bulk of the proposed findings are that they are "inadequate", "misleading" and that their "implications" are unfair to USG. USG's Memorandum is studded with the phrases "inadequate", "misleading", "erroneously implies", "mistakenly implies", and "improperly implies". USG does not claim that the record facts fail to support proposed findings in this class—rather, USG claims that the "impli-

* "PF" refers hereinafter to proposed finding or findings.

cations" of these proposed findings are misleading or that the findings do not fully and fairly set forth the facts as USG sees them. Objections and suggestions with regard to 23 of the 29 criticized proposed findings fall within this class, to the extent indicated in the table below:

Proposed Findings	*Objections by USG on grounds that they are "inadequate", "misleading", or have improper "implications"*
1, 2, 4, 5	All
6, 7	Obj. 2-4
9-14	All
15	Obj. 3
17, 18, 20-22	All
23C	Obj. 2
24	All
28	Obj. 2
30, 38	All

All of the above objections (and their correlative suggestions) are without merit, for one or more of the reasons given below.

[fol. 1707] First, many of the above objections and suggestions are *trivial*. For example, USG's first objection to PF 1 is that the finding is "inadequate and misleading" because it states that the "United States brought an Anti-Trust action (Civil No. 8017) against United States Gypsum Company, *et al.*," in lieu of naming each of the corporate defendants. Objections (and their correlative suggestions) of the same trivial kind include all objections to PF 1 and 2, objections 1 and 3 to PF 4 and 5, objection 3 to PF 15, objection 5 to PF 21 and 22, the single objection to PF 24, and the single objection to PF 38.

Second, USG draws wholly unwarranted "implications" from many of these proposed findings. For example, objection 3 to PF 6 is that the proposed finding that the licensees conditioned their business upon the continued use of USG's patent rights "implies that the co-conspirator licensees had been given some 'patent rights' in U. S. Gypsum's patents". We see no such implication.

USG's objections which draw unwarranted implications

from proposed findings include all USG's objections to PF 1 and 2, objections 2-4 to PF 6 and 7, all objections to PF 17, objection 2 to PF 23C, and objection 2 to PF 28.

Third, USG insists that whenever any finding unfavorable to its view of the case is proposed, additional findings which may be favorable to its theories of the case, however remotely relevant, be made at the same time. This entirely misconceives the function of findings. They need not recite every possible relevant fact on a controversial issue. There is room for a fair choice. As stated by the court in *In re Imperial Irrigation District,* 38 F. Supp. 770 (S. D. Cal. 1941), aff'd 136 F. 2d 539 (C. A. 9, 1943), cert. denied 321 U. S. 787:

> "The court need not find on every issue requested, but a finding of such essential facts as lay a basis for the decision is sufficient. * * *
>
> * * * Clearly the rule does not require the court to make elaborate findings upon facts which are in-[fol. 1708] appropriate to the decree entered, nor upon all such facts as will fully present every possible view of the case." (p. 772)

For example, PF 11-14 are not claimed by USG to state any erroneous facts. USG objects to them, however, and suggests a version which emphasizes facts reflecting its view of the case. PF 11-14, however, are a fair statement of the facts in relation to the issues now before the Court. Indeed, the thrust of USG's objections and suggestions is to reorient the facts toward the basic USG theory of this case—i.e., that the controlling facts here are the District Court's original findings and defendants' proffers of proof (see, e.g., USG Memo. pp. 30-31), a theory which has been rejected by this Court. Objections (and their correlative suggestions) of USG which are without merit for the reason that they allow no latitude for a fair choice of the salient facts or because they reflect USG's persistence in reorienting the facts to support its erroneous theory, or both, include objections to PF 4 and 5, 9-14, 18, 20-22 and 30.

2. Proposed Findings Allegedly "Irrelevant" and "Immaterial".

Objections are made to only two of National's proposed findings, PF 18 and 26, on the ground of irrelevancy and immateriality.

As to PF 18, it is submitted that the quoted statement of the Supreme Court in its second opinion relating to the formulation of a decree is an important fact in this case, which bears upon the relief now sought by the petitioners.

As to PF 26, the claims asserted by USG against Celotex and Kaiser are relevant to the jurisdiction of this Court based upon multiplicity of actions. They raise the possibility that the issues as to purge and misuse already present in four separate suits against USG's licensees may be present in additional suits against Celotex (the only USG licensee not sued by USG) and Kaiser.

[fol. 1709] 3. Proposed Findings Allegedly Resting on An Erroneous Court Holding.

The third class of objections made by USG rests upon the claim that the Court's holdings in this case are erroneous. As these objections go to the substance of the Court's ruling, and not to the form of the proposed findings, no comment is made thereon. The objections which fall within this class include substantially all objections to PF 23, including subparagraphs A, B, C, D and E. These objections (and their correlative suggestions) spring from USG's unwillingness to accept the Court's ruling that as a matter of law USG did not purge its misuse prior to the Final Decree.

Other objections (and their correlative suggestions) which go to the merits of the controversy and not to the form of the findings are objection 2 to PF 4 and 5 and objections 2 and 5 to PF 6 and 7.

4. Proposed Findings Allegedly Without Support in the Record.

USG attacks PF 5, 6, 15, 25 and 32, in whole or in part, as being without support in the record.

Proposed Finding 5

USG asserts that the Supreme Court, in its first opinion (333 U. S. 364) could not have determined that USG had misused its patents in the various ways set forth in PF 5, because USG had not presented its evidence at that point, and because the case was disposed of on a narrow adjudication, accepting as true defendants' proffers of proof.

PF 5 is correct, with the deletion hereinafter suggested. The various misuses found by the Supreme Court in 333 U. S. rested upon the license agreements, adherence thereto and other undisputed facts. Defendants' proffers failed to controvert any of the misuses found by the Supreme Court in 333 U. S. which are set forth in PF 5 ("price [fol. 1710] regulation", "suppression of related or similar unpatented products", and "regulation of methods and agencies of distribution"). For in the teeth of defendants' proffers of proof, the Supreme Court, in 340 U. S., found that not only was the price of patented gypsum board fixed, but in addition:

1. Production of open-edge gypsum board was restrained (340 U. S. 86, 90).
2. Prices were fixed in the sale of plaster and miscellaneous gypsum products sold in conjunction with gypsum board (340 U. S. 90-91).
3. Jobbers were eliminated (340 U. S. 91).
4. Trade practices were standardized (340 U. S. 91).

However, the parenthetical statement in the last sentence of PF 5, that the patent license agreements were "expanded in 340 U. S. 76 to cover gypsum products" may be omitted from this proposed finding as inapposite. The parenthetical expression was meant to indicate that the *relief*, not the patent license agreements, was expanded in 340 U. S. to cover gypsum products. Also, it is unnecessary in view of the statement following (b) of this finding.

Proposed Finding 6

USG disputes this finding on the ground that the record shows that the license agreements included basic patents, and, therefore, the petitioners organized their manufac-

turing plants upon the use of these patent rights because they had no choice, not because of the patent misuse. The second objection is that petitioners have taken an inconsistent position in that their defense in Iowa is that they did not use the patents sued on.

The record fully supports the proposed finding that the patent misuse arose from the unlawful patent license agreements. USG would not grant licenses except upon [fol. 1711] price fixing terms. If petitioners had refused to enter into these agreements, they would have been sued for infringement. In the event USG's patents had been held valid, petitioners would have had to cease operating entirely if unable to find alternative means of producing gypsum products. It was the patent misuse, therefore,—i.e., the making, and operating under, these agreements—which caused the petitioners to organize their plants upon the continued use of USG's patent rights. The fact that some petitioners may take a later inconsistent position in defending infringement suits does not in any way derogate from the fact that this proposed finding is fully supported in the record herein.

Proposed Finding 15

USG objects to the second sentence in this proposed finding which states that "The decree of November 7, 1949, therefore, never became effective." After the decree was entered, both the Government and USG appealed. In connection with USG's appeal the decree was stayed by an order on January 9, 1950. Although the mandate of the Supreme Court dismissed USG's appeal as of May 29, 1950, it was signed by the Clerk of the Supreme Court on July 18, 1950, and was filed in the District Court on July 19, 1950. From January 9, 1950 to at least July 19, 1950, therefore, the 1949 decree was stayed. However, because of both appeals, and the knowledge of all parties that the decree would not be finally settled until both appeals were decided, the decree had no practical effect. National and Certain-Teed, for example, took no licenses thereunder, although they did so after the Final Decree of May 15, 1951. It is therefore suggested that the second sentence

in PF 15 be deleted and the following inserted in lieu thereof:

> "Because of the appeal by both the Government and USG (the 1949 decree having been stayed in connection with USG's appeal, from January 9 to July 19, 1950), neither the Government nor the industry treated it as a practical, working decree."

[fol. 1712] Proposed Finding 25

USG asserts that this proposed finding erroneously states the amounts which it is seeking to recover against Ebsary and Newark. PF 25, in its present form, is not erroneous; it clearly implies that the maximum recovery sought against Ebsary is $245,000, and against Newark $285,000.

However, National has no objection to restating this proposed finding to indicate clearly the amounts sought by USG on each of the various counts against Newark and Ebsary. USG's suggestion with regard to interest is also unobjectionable, and, therefore, National has no objection to USG's suggested finding 25.

Proposed Finding 32

USG's first objection to this proposed finding is that it is erroneous because in the Ebsary and Newark complaints the amounts sought are greater in Counts III to V than under Counts I and II. But USG overlooks the fact that the proposed finding is that the amounts sought in Counts III to V in these suits is precisely the same as the amounts sought in Counts I and II *"for the period prior to the Final Decree"*. The only reason why, in the case of Newark and Ebsary, more money is sought by USG under Counts III to V, is that the period of time sued for extends beyond the Final Decree. For the period prior to the entry of the Final Decree USG is seeking precisely the same amounts under Counts III to V against each of the petitioners as it seeks under Counts I and II.

USG's third objection* is to that part of the proposed

* It is unnecessary to discuss the second objection which is merely argumentative.

finding which states that the amounts sought in Counts I [fol. 1713] and II "are the amounts provided for and measured by the old unlawful license agreements". The license agreements, as correctly stated by USG, required royalties to be paid on all gypsum board made and sold, whether or not made under the licensed patents. But it is also true that USG is seeking in Counts I and II to enforce the covenant to pay under the original license agreements, although it desires the royalties due only for the patented gypsum board made and sold. Counts I and II, therefore, are attempts by USG to enforce a covenant in the license agreements declared invalid, with a *pro tanto* waiver of royalties due under that covenant by USG by reason of the manufacture and sale of unpatented gypsum board, *if any*. This *pro tanto* waiver in nowise limits the fact that USG in Counts I and II is actively enforcing covenants in the old unlawful license agreements.

While PF 32 is correct, it would perhaps be clearer if PF 32 were amended to read as follows:

> "The amounts sought in Counts III to V in these suits for the period prior to the Final Decree is precisely the same as the amounts sought as royalties in Counts I and II. In Counts I and II the amounts are sought to be recovered by means of enforcing the covenant to pay in the old unlawful license agreements."

It is submitted that, with the above amendments to PF 5, 15, 25 and 32, the findings proposed by petitioners National and Certain-Teed set forth fairly and accurately the salient facts relative to the determination of the issues before this Court.*

B. Proposed Conclusions of Law

Petitioners proposed 16 conclusions of law. They follow closely both the language of the Court's opinion, and its quadripartite structure.

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* All USG objections and suggestions directed at the proposed findings (and also conclusions and decree) not specifically commented on are objected to by National.

[fol. 1714] Most of USG's objections and suggestions with regard to the proposed conclusions do not go to the form of these conclusions, but dispute the correctness of the Court's rulings.

Proposed Conclusions 1 to 6

USG's objections to Proposed Conclusions 1 to 6 go to the merits, except for two objections, both unjustified, which go to the form of Conclusions 1 and 5 respectively. As to Conclusion 5, it may be pointed out that the claims against Kaiser and particularly Celotex, a former USG licensee, portend additional lawsuits involving the same issues now pending in the four actions commenced by USG (see PF 26).

Proposed Conclusion 7

USG's objections 1 and 2 go to substance, not form. The first two sentences suggested as an addition to Proposed Conclusion 7 are taken from the Court's opinion at page 25, and are unobjectionable. The last suggested sentence, however, is unnecessary and does not fairly or fully reflect the opinion of the Court in the light of the Court's statement in the first paragraph of page 21 of its opinion.

Proposed Conclusion 8

Objection is made to the last two sentences of this proposed conclusion on the ground that they are statements of fact, not law. Nevertheless, they are an elaboration of the principle stated in the first sentence of the conclusion; and they are particularly pertinent in the instant case where the Court is dealing with a situation which was "either overlooked at the time the decree was entered" or which arose "after the decree".

[fol. 1715] Proposed Conclusion 9

Objections (c) and (d) to Proposed Conclusion 9 intermix arguments going to substance and form. The third sentence of Proposed Conclusion 9 is particularly attacked. It is submitted that this sentence should be read with Proposed Conclusion 8. When so read, it is a proper conclu-

sion that a Court has power to modify a decree to take care of a situation overlooked at the time a decree was entered, or which arose after the decree, where the modification will "cure the ill effects of the illegal conduct".

Proposed Conclusion 10

The suggestion adding language from page 24 of the Court's opinion to the sentence which is now Proposed Conclusion 10 is unobjectionable.

Proposed Conclusion 11 to 14

USG's objections to these proposed conclusions go to issues decided by the Court.

Proposed Conclusions 15 and 16

These conclusions go to issues decided by the Court.

As to whether the decree properly prohibits prosecution of infringement suits against Newark and Ebsary during the period subsequent to May 15, 1951, the Court's last statement on this issue, at page 38 of its opinion, would support this conclusion. However, as National is not involved in this controversy, no further comment is made thereon.

It is submitted that the conclusions proposed by the petitioners are proper. National, however, has no objection to the above amendments of Proposed Conclusions 7 and 10.

[fol. 1716] C. Proposed Decree

USG's objections go to issues decided by the Court. As to costs, they should be borne by USG for its unwarranted institution of suits against the petitioners.

Respectfully submitted, Finck and Huber, Rosenman Goldmark Colin & Kaye, Seymour Krieger, Attorneys for National Gypsum Company.

October 11, 1954

[fol. 1717] [Filed October 11, 1954. Harry M. Hull, Clerk]

ROSENMAN GOLDMARK COLIN & KAYE
575 Madison Avenue, New York 22

October 11, 1954

The Hon. Kimbrough Stone
United States District Court
for the District of Columbia
Washington 1, D. C.

Re: U. S. v. U. S. Gypsum, et al.

Civil Action No. 8017

Dear Judge Stone:

Pursuant to Judge Rosenman's letter to you of September 27, 1954, National Gypsum Company has filed today its "Memorandum in Answer to U. S. Gypsum Company's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law and Decree."

However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, National's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, conclusions and decree.

Respectfully, (S) Seymour D. Lewis.

SDL:JC

cc: The Hon. Eugene Worley, The Hon. William P. Cole.

Edward Knuff, Esp., South S.E.C. Bldg. Room 2441, 2nd & Indiana Avenues, Washington, D. C., Attorney for the United States of America

[fols. 1718-1720] Hugh Lynch, Jr., Esquire, 1625 K Street, N.W., Washington 6, D. C.

Bruce Bromley, Esquire, Cravath, Swaine & Moore, 15 Broad Street, New York, New York

Cranston Spray, Esquire, MacLeish, Spray, Price &

Underwood, 134 So. LaSalle Street, Chicago 3, Illinois, Attorneys for U. S. Gypsum Company

Norman A. Miller, Esquire, Messrs. Clausen, Hirsch & Miller, 135 South LaSalle Street, Chicago 3, Illinois, Attorney for Certain-Teed Products Corporation

Albert E. Hallett, Esquire, Dallstream, Schiff, Stern & Hardin, 231 South LaSalle Street, Chicago 4, Illinois, Attorney for Celotex Corporation

Joseph S. Rippey, Esquire, 612 Powers Building, Rochester 14, New York, Attorney for Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esquire, DeWitt, Pepper & Howell, 120 Broadway, New York 5, New York, Attorney for Newark Plaster Company

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[fol. 1721] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

MOTION OF U. S. GYPSUM CO., FOR RECONSIDERATION RE OPINION OF JULY 6, 1954—Filed October 18, 1954.

Comes now United States Gypsum Company (hereinafter referred to as U. S. Gypsum), by its attorneys, and moves that the court reconsider its apparent denial of the right of U. S. Gypsum to petition for reconsideration and for rehearing in respect to manifest errors of law and of fact embodied in the court's opinion of July 6, 1954, and which errors and petition are set forth in U. S. Gypsum's Objections and Suggestions with respect to the Petitioners' Proposed Findings of Fact, Conclusions of Law and Decree, and further moves that this motion be set down for hearing at a date convenient to the court, for the reasons that:

1. Pursuant to this court's order entered July 27, 1954, U. S. Gypsum, on September 17, 1954, filed herein its objections and suggestions with respect to petitioners' pro-

posed findings, conclusions and decree, wherein U. S. Gypsum set forth and discussed, among other things, certain basic errors in the proposed findings, conclusions and decree resulting from the incorporation of manifest errors of law and of fact in the majority opinion, and the court was asked to reconsider its opinion in the light of such objections and suggestions and to that end to set the matter down for further argument at a date convenient to the court (pp. 26, 85).

[fol 1722] 2. All parties have now had ample opportunity to consider the petitioners' proposed findings, conclusions and decree, and U. S. Gypsum's objections and suggestions with respect thereto, and to answer or otherwise move with respect thereto, and National Gypsum Company (hereinafter referred to as National), under the circumstances hereinafter set forth, has filed a memorandum in answer to U. S. Gypsum's objections and suggestions.

3. Rather than moving for leave to answer or strike U. S. Gypsum's objections and suggestions in whole or in part, National, by its attorney Judge Samuel I. Rosenman, on September 27, 1954, addressed a letter to the Honorable Kimbrough Stone, presiding Judge of this court, reading in part:

> "It is respectfully requested that the Court permit National to file, along with its answer to USG's objections and suggestions with respect to the form of the decree, findings and conclusions, its answer to USG's arguments on the merits. National's answer to USG's argument on the merits will restrict itself, however, to answering only the new contentions raised by USG. National proposes, if the Court so permits, to file its Memorandum by October 11, 1954.
>
> "We urge, however, that the Court disregard USG's reargument and our answers thereto; that the Court reject USG's request for further oral argument; and that the Court limit its consideration solely to the matter of the form of the findings, conclusions and decree."

[fol. 1723] Under date of October 11, 1954, National filed, pursuant to Judge Rosenman's letter to Judge Stone of September 27, 1954, its memorandum in answer to U. S. Gypsum's objections and suggestions, and on the same date wrote a letter of transmittal addressed to Judge Stone, and signed by Seymour D. Lewis, a partner of Judge Rosenman, in which reference was made to the enclosed memorandum and it was then stated:

> "However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, Nation's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, conclusions and decree."

Until receipt of National's transmittal letter of October 11, 1954, U. S. Gypsum had no knowledge of the telephone conversation between Judge Stone and Judge Rosenman and does not now know of the circumstances of the telephone call or the basis or significance of the claimed instructions from Judge Stone to Judge Rosenman to omit from the memorandum "any answer to U. S. Gypsum's arguments on the merits". If, by the instructions asserted to have been given to Judge Rosenman, it was intended to rule that U. S. Gypsum did not have the right to seek a reconsideration or rehearing of what it regarded as manifest errors of law and of fact set forth in its said objections and suggestions, then U. S. Gypsum submits that any *ex parte* determination of such matters, either in whole or in part, is not in accordance with orderly procedure and justice to the party not heard, and that U. S. Gypsum is entitled to be heard on its right to seek such a reconsideration or rehearing.

[fol. 1724] 4. By this court's order of July 27, 1954, U. S. Gypsum was entitled to object to matters of substance as well as form in the proposed findings, conclusions and decree, and it was impossible to state its objections without including the basic errors set forth and discussed in its said objections. Moreover, U. S. Gypsum is entitled to present for this court's reconsideration, the

manifest errors of law and of fact asserted in its objections, and to seek a rehearing and reconsideration of this court's apparent denial of that right, under the authority of Rule 59(a) of the Federal Rules of Civil Procedure. U. S. Gypsum accordingly asks that this court, if it has not already done so, treat U. S. Gypsum's request for a reconsideration of the errors of law and of fact asserted in its said objections not only as being filed pursuant to this court's order of July 27, 1954, but also as a motion for reconsideration and rehearing under Rule 59(a).

5. This court, sitting as a court of equity, could and should, under long established equity practice, now embodied in the Federal Rules of Civil Procedure, reconsider its apparent denial of U. S. Gypsum's right to seek a reconsideration of this court's decision of July 6, 1954, in the light of the manifest errors of law and of fact urged in U. S. Gypsum's objections, and to that end the matter should be set down for hearing.

Respectfully submitted, Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for United States Gypsum Company, 1625 K Street, N. W., Washington 6, D. C.

[fol. 1725] [File endorsement omitted]

UNITED STATES DISTRICT COURT
DISTRICT OF COLUMBIA

[Title omitted]

MEMORANDUM OF NEWARK PLASTER COMPANY AND EBSARY GYPSUM COMPANY, INC. IN ANSWER TO UNITED STATES GYPSUM COMPANY'S OBJECTIONS AND SUGGESTIONS WITH RESPECT TO PETITIONER'S PROPOSED FINDINGS OF FACT, CONCLUSIONS OF LAW AND DEGREE—Filed October 21, 1954

[fol. 1726] I

Newark Plaster Company, hereinafter called "Newark", and Ebsary Gypsum Company, Inc., hereinafter called "Ebsary", adopted and joined in the proposed findings

of fact, conclusions of law and decree submitted by National Gypsum Company, hereinafter called "National", pursuant to the opinion of the Court herein filed July 6, 1954.

United States Gypsum Company, hereinafter called "USG", has filed a memorandum objecting to those proposed findings of fact, conclusions of law and decree, and National has now submitted a memorandum in answer to USG's objections.

Newark and Ebsary adopt and join in the answer of National to USG's objections, but submit this memorandum in order to supplement National's answer to USG's objections to proposed conclusions of law Nos. 15 and 16. Proposed conclusion 15 relates to Count IV, the quantum meruit count and conclusion 16 relates to Counts V and VI, the infringement counts. In its memorandum, National supports these proposed conclusions without reservation [fol. 1727] over USG's objections, but adds "However, as National is not involved in this controversy, no further comment is made thereon" (National's memorandum p. 12).

The point involved is whether the decree should follow the ultimate conclusion expressed in the Court's opinion "that further prosecution of all Counts of the USG suits should be enjoined", including the Counts in the Newark and Ebsary complaints relating to the period subsequent to May 15, 1951 (Opinion, p. 38).

The purpose of this memorandum is to supply further comment with respect to this point on behalf of Newark and Ebsary which are directly involved.

II

This Court, in its opinion, held that apart from any question of misuse and purge, the prosecution of Counts I, II and III in the various actions brought by USG should be enjoined because they are based on license agreements which have been declared illegal, null and void (Opinion pp. 16, 32).

The Court held that the prosecution of Count IV, the quantum meruit Count, and Counts V and VI, the infringe-

ment Counts, which might otherwise be proper, should be enjoined because of the unpurged misuse by USG of its patents.

With respect to Count IV, the Court said:

> "Count IV of USG petitions is for *quantum meruit* covering the use of the patents. Under the Hartford-Empire opinion (324 U. S. 570, 572), we think this Count is proper and prosecution thereof should not be enjoined unless USG is barred by unpurged misuse of its patents (Opinion, pp. 32-33)".

With respect to Counts V and VI, the infringement Counts, the Court held in effect that USG would not be permitted to sue for infringement of its patents for any [fol. 1728] period during which USG continued the unpurged misuse of its patents (Opinion, pp. 29 et seq.).

In other words, absent unpurged misuse, USG might sue on quantum meruit or for infringement, but because there was unpurged misuse by USG up to this time, this Court has held that it will enjoin prosecution of all the *quantum meruit* and infringement counts in all the USG actions (Opinion, pp. 35, 38).

In the actions in Iowa, National and Certain-Teed Products Corporation, hereinafter called "Certain-Teed", have already filed their answers, asserting as a defense to the quantum meruit and infringement Counts, "that they did not use the patents sued on" (National's memorandum p. 7, USG's Objections, p. 34). Ordinarily, this would raise the issue of infringement *vel non*, which issue would be disposed of in the Federal District Court in Iowa. But this Court has held that because of USG's unpurged misuse of its patents, it will not permit that issue of infringement *vel non* to be litigated, but will enjoin the prosecution of the actions.

Newark and Ebsary have not yet filed answers in the actions brought against them in New Jersey and New York, respectively, but have indicated that when they do file answers, they will assert as a defense, exactly as National and Certain-Teed have done, that "they did not use the patents sued on". Ordinarily, as in the case of

National and Certain-Teed, this defense, when asserted, would raise the issue of infringement *vel non*, which issue would have to be disposed of in two different Courts, the Federal District Court in New Jersey in the case of Newark and the Federal District Court in the Southern District of New York in the case of Ebsary. But, as in the case of National and Certain-Teed, the Court has held that it will not permit that issue of infringement *vel non* to be litigated but will enjoin the prosecution of those actions. Thus the Court reached the unequivocal conclusion "(3) that further prosecution of *all* Counts in the USG suits should be enjoined" (emphasis supplied).

[fol. 1729] The only difference between the quantum meruit and infringement Counts against Newark and Ebsary on the one hand, and those against National and Certain-Teed on the other, is that USG sues National and Certain-Teed for the period up to May 15, 1951, while USG sues Newark and Ebsary for the period up to the filing of the complaints in the actions. USG will be enjoined from suing any of the petitioners for the period up to May 15, 1951 because of the unpurged misuse by USG of its patents during that period. USG will also be enjoined from suing any of the petitioners—specifically Newark and Ebsary—for the period beyond May 15, 1951 down to the commencement of the actions because, as this Court has found, USG's unpurged misuse of its patents continued during that period.

As to the duration of the unpurged misuse by USG, this Court said:

> "We think there was misuse by USG, as matter of law on the facts here, which has not been purged" (p. 34).
>
> • • •
>
> "We think this course of conduct, as clearly shown by the proceedings of record in the Anti-Trust case and in these suits by USG, must be construed as meaning that USG has continued to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time" (p. 35).
>
> • • •

"The USG suits now pending show conclusively that even yet it (USG) is striving to enforce the royalty provisions of the illegal patent license agreements.

"We think such an attempt is clear misuse of its patents; that such misuse yet continues; * * *" (p. 38).

Having decided that recovery on the theory of quantum meruit or infringement will be enjoined so long as there is unpurged misuse, and having decided further that USG's unpurged misuse continued at least down to the commence-[fol. 1730-1732] ment of the actions against Newark and Ebsary, the Court could not consistently do otherwise than to hold, as it did, that the prosecution of *all* the Counts in all the actions should be enjoined. The Court could not find that unpurged misuse of patents barred recovery on the quantum meruit and infringement Counts in the case of National and Certain-Teed, but did not bar recovery in the case of Newark and Ebsary. The Court, further, could not find that it should not enjoin the prosecution of the quantum meruit and infringement Counts in the case of Newark and Ebsary because Newark and Ebsary *intended* to raise the issue of infringement *vel non* in their answers when the answers are filed; and enjoin the prosecution of those Counts in the case of National and Certain-Teed which have already raised the issue of infringement *vel non* in answers already filed. Finally, the Court could not find that there is a multiplicity of actions in the case of National and Certain-Teed, where the issue of infringement *vel non* would be tried in the same Court in Iowa, presumably before the same judge; and find that there is no multiplicity of actions in the case of Newark and Ebsary where the issue of infringement *vel non* would be tried in two different jurisdictions—New Jersey and New York—before two different judges.

Conclusion

The final decree of this Court should follow the ultimate conclusions expressed in the Court's opinion, including the

ultimate conclusion "that further prosecution of *all* Counts of the USG suits should be enjoined" (emphasis supplied).

Respectfully submitted, DeWitt, Pepper & Howell, Attorneys for Newark Plaster Company. Joseph S. Rippey, Attorney for Ebsary Gypsum Company.

October 18, 1954.

[fol. 1733] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER DENYING U. S. GYPSUM': OBJECTIONS TO PETITIONER'S PROPOSED FINDINGS, ETC. AND MOTION FOR RECONSIDERATION —December 9, 1954

The Part I of United States Gypsum Company's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law, and Decree, filed September 17, 1954, is denied consideration; the motion of United States Gypsum Company for reconsideration and for rehearing filed October 18, 1954 is denied; denial of each of these matters is without prejudice to United States Gypsum Company to present, after entry of Decree herein, such proper matters as it may then deem advisable.

Dated this 9th day of December, 1954.

Kimbrough Stone, Eugene Worley, William P. Cole, Jr., Judges.

[fol. 1734] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

In re Petitions of NATIONAL GYPSUM COMPANY, *et al.*, Petitioners, v. UNITED STATES GYPSUM COMPANY, Respondent.

MEMORANDUM OPINION RE OBJECTION AND MOTION FOR RECONSIDERATION—December 9, 1954

Before the Honorable KIMBROUGH STONE, United States Circuit Judge and the Honorable EUGENE WORLEY and the Honorable WILLIAM P. COLE, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

PER CURIAM: Under the majority opinion filed herein on July 6, 1954, Petitioners were granted thirty days thereafter to serve upon opposing counsel and to file with this Court, "suggested form of decree and form of Conclusions and Findings." Thereafter, United States Gypsum Company [1] was granted until September 17, 1954 to file objections to any suggested forms of Findings, Conclusions and Decree so filed by Petitioners. National Gypsum Company filed an answering memorandum on October 11, 1954. On October 18, 1954, USG filed a motion for reconsideration and rehearing with supporting memorandum. On October 21, 1954, Newark Plaster Company and Ebsary Gypsum Company, Inc. filed a joint answering [fol. 1735] memorandum to the Objections, etc. of USG. On October 22, 1954, National filed a memorandum of authorities opposing the above motion of USG.

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[1] For convenience, United States Gypsum Company is hereinafter designated as USG.

First

The Objections and Suggestions of USG are stated in two "Parts" as follows:

> "* * * Part I presents basic errors inherent in the proposed findings, conclusions and decree because they incorporate findings and conclusions from the majority opinion which are erroneous and which should therefore be given further consideration by the Court. Part II deals with specific detailed objections and suggestions regarding the proposed findings of fact, conclusions of law and decree."

Part I concludes with the statement following:

> "U. S. Gypsum respectfully urges that, in view of the matters hereinbefore presented, this court reconsider its opinion of July 6, 1954, and afford an opportunity for further hearing with respect thereto, before it formalizes the opinion by the entry of findings of fact, conclusions of law, and amendment to the decree of May 15, 1951."

It is thus clear that Part I is not directed to the matter of aiding the Court in its formation of Findings, Conclusions and Decree to express the determinations reached in the majority opinion. Rather it is in the nature of a petition for rehearing which argues the merits of the matters covered in that opinion.

The direction to Petitioners (in the majority opinion) and the later order giving USG leave, until September 17, to file objections and suggestions was each definitely confined to matters having to do with formulation of Findings, of Conclusions and of a decree. There can be no doubt of this. Therefore, Part I of USG's Objections and Suggestions was not covered by the leave granted it. The Court might well have disregarded Part I or have stricken it of its own motion or it might have heard and considered it on its merits. Such choice resting upon [fol. 1736] "its inherent power to direct a case so as to aid in its disposition" (*United States* v. *United States Gypsum Co. et al.*, 340 U. S. 76, 81).

This choice necessitated no immediate determination until the receipt of a letter from Judge Rosenman.[2] The letter requested leave to "answer USG's argument on the merits", such answer to be restricted however to "the new contentions raised by USG"; and stating such memorandum would be filed by October 11, only one week after receipt of the letter by Judge Stone. At the same time, there was insistence that Part I should not be considered.[3] Thus was created a somewhat complicated sit-

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[2] While dated in New York City as of September 27, the letter was directed to Judge Stone in Washington, D. C. from where it was forwarded to him at Kansas City, Mo., first coming to his attention the morning of Monday, October 4.

[3] The text of the letter follows:

"ROSENMAN GOLDMARK COLIN & KAYE

"575 Madison Avenue New York 22

"Samuel I. Rosenman
"Godfrey Goldmark
"Ralph F. Colin
"Sidney M. Kaye
"Walter J. Petschek "Murray Hill 8-7800
"Max Freund
"Ambrose Doskow
"Seymour D. Lewis

"September 27, 1954

"Hon. Kimbrough Stone
"United States District Court
"for the District of Columbia

"Washington 1, D. C.

"Re U. S. v. U. S. Gypsum, et al.
"Civil Action No. 8017

"Dear Judge Stone:

"On September 17th, the United States Gypsum Company served upon National Gypsum Company a Memorandum entitled 'United States Gypsum Com-

uation which seemed to require immediate action as to whether the Court would consider Part I, and if so, to what extent.

The Judges (on October 4) discussed this situation by long distance telephone. The result was unanimous agreement that it would be more orderly not to consider the matters covered by Part I in connection with formulation of the Findings, Conclusions and decree; that accompanying such formulation, an order denying Part I without prejudice to USG would be entered; and that Judge Rosenman would be informed by Judge Stone that he need not answer Part I in the memorandum to be filed

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pany's Objections and Suggestions with Respect to Petitioners' Proposed Findings of Fact, Conclusions of Law, and Decree', which, without leave of Court, reargues issues decided by the Court's opinion of [fol. 1737] July 6th, and sets forth several new arguments in support of USG's contentions.

"Your Honor will recall that under the Court's opinion, permission was granted only to Petitioners to file a suggested form of findings, conclusions and decree. Thereafter, upon consent of petitioners National and United States of America, an order was entered on July 27, 1954, that 'the respondent United States Gypsum Company shall have to and including September 17, 1954 within which to serve upon Petitioners' counsel and file with the Court objections or suggestions with respect to the form or forms of Decree and form or forms of Conclusions and Findings so served upon its counsel by the Petitioners or any of them.' No authority was granted to USG to reargue any of the issues determined by this Court.

"It is respectfully requested that the Court permit National to file, along with its answer to USG's objections and suggestions with respect to the form of the decree, findings and conclusions, its answer to USG's arguments on the merits. National's answer to USG's argument on the merits will restrict itself, however, to answering only the new contentions raised

by October 11. Later the same day, Judge Rosenman was informed that he need not answer this Part I.

This memorandum by Judge Rosenman was transmitted to the Clerk of the Court with a letter addressed to Judge Stone and reading, in part, "However, in accordance with your instructions by telephone to Judge Rosenman on October 4th, National's Memorandum has omitted any answer to U. S. Gypsum's arguments on the merits, and is restricted to the matter of the form of the findings, [fol. 1739] conclusions and decree." Shortly thereafter (October 18, 1954), USG filed its motion that the Court "reconsider its apparent denial of the right of U. S.

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by USG. National proposes, if the Court so permits, to file its Memorandum by October 11, 1954.

"We urge, however, that the Court disregard USG's reargument and our answers thereto; that the Court reject USG's request for further oral argument; and that the Court limit its consideration solely to the matter of the form of the findings, conclusions and decree.

"Respectfully submitted,

"/s/ SAMUEL I. ROSENMAN
"Samuel I. Rosenman

"cc: Hon. Eugene Worley

"Hon. William P. Cole
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Gypsum to petition for reconsideration and for rehearing in respect to the manifest errors of law and of fact embodied in the court's opinion of July 6, 1954 * * * set forth in U. S. Gypsum's Objections and Suggestions * * * further moves that this motion be set down for hearing * * *". The motion claims such right of consideration and rehearing also under Civil Rule 59(a) governing new trials.

As stated above, the plan of the Court was to deny consideration of Part I at the time of and in connection with its determination of Findings, Conclusions and Decree, without prejudice to USG. USG has no uncontrolled right to argue the merits of the majority opinion before that

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opinion has been formalized into a Decree. Any earlier presentation is entirely within the discretion of the Court as to whether such presentation would be helpful to the Court. The Court might have constructed its own Findings, Conclusions and Decree without seeking aid from counsel for any of the parties. It saw fit to ask that aid, to be furnished through suggestions as to those matters. Those requests were specifically limited and cannot properly be tortured into any allowance of discussion of the merits of the determinations stated in the majority opinion. Rule 59(a) has no application until the entry of a Decree, which creates the situation where the Rule becomes activated. The motion of USG has exactly the same purpose as Part I of its Objections and Suggestions. It will be disposed of in like manner.

The Court prefers to follow the regular procedure by stating its determinations as to Findings, Conclusions [fol. 1740] and Decree in proper definite form at this time, leaving USG to challenge the thus completed statement of such determinations by such methods as it may be then advised.

An order is this day entered denying consideration of Part I and denying USG's motion for reconsideration and rehearing. Each of such denials is entirely without prejudice to USG to present, after entry of decree herein, such proper matters as it may then deem advisable. All three Judges join in this disposition of these two matters.

Second

The immediate engagement of a majority of the Court (Judges Stone and Worley) is to state the Findings of Fact and the Conclusions of Law, which are the bases for a Decree, and to settle the terms of such a Decree. In this undertaking, the Court has been much aided by the proposals and observations both of Petitioners and of USG.

Separately or generally to analyze and discuss the numerous Suggestions, Objections, and Counter-Suggestions would serve no useful purpose. The Findings made, the Conclusions stated and the Decree entered by the

Court will evidence our consideration of all that counsel for the parties have brought to us.

However, to prevent misunderstanding, it may be helpful to make the following observations concerning the Findings of Fact. The "Objections" and the "Proposed Findings" of USG fall naturally in two classes. One of these challenges the *verity*—the truthfulness—of particular Findings suggested by Petitioners. The other aims at the accuracy—meaning incompleteness or insufficiency to present an adequate picture of the subject matter—of a particular Finding. In some instances, both the "verity" and the "accuracy" of a Finding are assailed.

[fol. 1741] Where the problem has been "verity", the Court has expressed its decision. Where the problem has been "accuracy", it has usually been a matter of the extent to which the details of the subject matter of a Finding should be stated. Therefore, the circumstance that such detail is not contained in a Finding may mean only that the Court deems it unnecessary.

Except as covered by the just preceding paragraph or as included in the Findings of Fact filed, the Findings suggested by all parties are denied. Where the suggested Conclusions of Law are not, in substance, incorporated in those filed by the Court, they are denied. The same situation and the same ruling applies to the Form of Decree.

Judge Cole does not join in the Findings of Fact, the Conclusions of Law nor the Decree since he adheres to the view, as expressed in his dissenting opinion (filed July 6, 1954), that this Court is without jurisdiction in the matters presented by Petitioners.

[fol. 1742] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants.

IN RE PETITIONS OF NATIONAL GYPSUM COMPANY, ET AL., PETITIONERS, v. UNITED STATES GYPSUM COMPANY, RESPONDENT.

FINDINGS OF FACT—December 9, 1954

1. On August 15, 1940, the United States brought an Anti-trust action (Civil Action No. 8017) against United States Gypsum Company, National Gypsum Company, Certain-Teed Products Corporation, The Celotex Corporation, Ebsary Gypsum Company, Inc., Newark Plaster Company, et al., which were engaged in the mining of gypsum rock and in the manufacture and sale of gypsum products. The complaint charged a violation of Sections 1, 2 and 3 of the Sherman Act by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-Teed, Ebsary, Newark and other companies, as licensees. For a more detailed statement of the issues, reference is made to the opinion of Chief Judge Stephens narrating the facts and issues on the trial of the case (*U. S.* v. *U. S. Gypsum Co. et al.*, 67 F. Supp. 397).

2. The case came on for trial in due course and at the close of evidence for the United States, this [fol. 1743] statutory court of three judges on June 15, 1946 determined, among other things (67 F. Supp. 397), that, under its construction of *United States* v. *General Electric Co.* (272 U. S. 476), the separate license agreements were legal (67 F. Supp. at pp. 421-441); and that these agree-

ments were made *bona fides* with no ulterior purpose to violate the Act (67 F. Supp. at pp. 458-484). The Court sustained a motion to dismiss the complaint under Rule 41(b) of the Federal Rules of Civil Procedure upon the ground that on the facts and the law the Government had shown no right to relief (*U. S.* v. *U. S. Gypsum Co., et al.*, 67 F. Supp. 397).

3. The Government appealed and the Supreme Court reversed and remanded "for further proceedings in conformity with this opinion." (333 U. S. 364, 402). This decision was on March 8, 1948 with rehearing denied on April 5, 1948 (333 U. S. 869).

4. The Supreme Court (333 U. S. 364), on the prima facie case, decided that the industry-wide license agreements, entered with mutual knowledge of the licensor and of all of the different licensees, under which prices and distribution methods would be controlled, established an unlawful conspiracy and monopoly; and that "* * * regardless of motive, the Sherman Act barred patent exploitation of the kind that was here attempted" (p. 393).

5. The Supreme Court (333 U. S. 364) determined that USG had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to regulation of methods and agencies of distribution. The effective instrumentalities used by USG were [fol. 1744] patent license agreements containing various restrictive provisions. Such agreements covered control (a) of prices of patented gypsum board, (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof.

6. One result of the patent misuse was to create an economic situation where the conspirators—other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.

7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these

licenses were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods.

8. Almost immediately following this opinion of the Supreme Court, each of the four defendant petitioners stopped paying accrued or future royalties or paying otherwise for use of the patents covered by the license agreements. No payments of any kind were made until new compulsory licenses were granted, under the Final Decree, to National and Certain-Teed, which were retroactive to May 15, 1951, the date of the Final Decree. Ebsary and Newark did not take out new licenses.

9. After rehearing was denied (April 5, 1948, 333 U. S. 869), this Court held a conference of counsel which resulted ultimately in a motion by the Government for summary judgment, it being claimed that there was no genuine fact issue remaining to be determined. Various de- [fol. 1745] fendants filed offers of proof as to fact matters they deemed yet in issue. These two occurrences were in June 1948. Beginning in June 1948 and extending to June 14, 1949, numerous briefs and memoranda were filed by the various parties in connection with the motion for summary judgment, the offer of proofs, suggested findings of fact, and form and contents of decree to be entered.

10. On June 14, 1949 this Court held an extended hearing upon all of these matters. At the hearing, a majority of this Court made clear their intention to sustain the motion for summary judgment; and counsel for all parties were given time to file suggestions and memoranda as to form of decree and other pertinent matters. Such suggestions and memoranda were filed up to August 12, 1949. Without further hearing, this Court entered its decree of November 7, 1949.

11. The hearing of June 14, 1949, and the written or printed suggestions and memoranda of the parties filed before, in connection with, and after that hearing, had to do, among other things, with various suggestions as to the form of decree to be entered, including the scope and pur-

poses of what later became, in substance, Articles III, IV and VI of that decree. Practically all of the matters were concerned with prevention of violation in the future, that is, after the effective date of the decree to be entered. However, USG was much concerned with avoiding any provision in the decree declaring the licenses illegal, null and void in their entirety. In this connection it voiced its apprehensions as to whether these petitioners would be absolved from payment of royalties for the period involved here by such a provision in the decree.

12. In a Reply Memorandum filed by USG (July 23, [fol. 1746] 1949), are the following statements:

> "The defendant licensees can have no purpose in making the suggestion that each patent license be adjudged illegal except to obtain some advantage with respect to the use of the patents. They apparently believe it will relieve them from accounting for anything done either before or after the Supreme Court's decision." (P. 6)
>
> "They have no right of any kind to Gypsum's patents in the future any more than if their licenses had expired without this litigation. With the cancellation of their present licenses they should only be placed in *status quo* to the extent that any licensee desires to continue the use of any of Gypsum's patents under which it is presently licensed." (P. 8.)
>
> "In the first place, Newark seeks a provision that each of the license agreements be adjudged unlawful under the anti-trust laws and illegal, null and voil, which not only goes beyond the scope of the determination by this court upon the motion for summary judgment but has for its purpose an attempt to be relieved from accounting, as stated before in this memorandum." (P. 9.)
>
> "National like Newark, is one of those companies which seeks to have the entire license contract declared illegal, apparently believing it will relieve them from accounting with respect to anything done before or after the decision of the Supreme Court." (P. 15.)

13. The main contention between USG (on one side) and the Government and the other defendants (on the other side) was whether the declaration of illegality in the proposed decree should be confined to the price-fixing provision in the license agreements or whether it should apply *in toto* to the entire license agreements. Strenuously, USG contended for such limitation to the price-fixing provisions. This appears not only in its arguments and briefs in connection with the June 14, 1949 hearing but in its original suggestions as to prospective Articles III, IV , V. and VI. As a companion and resultant position, USG urged that, while only the minimum price provision should be declared illegal, the existing agreements should be *cancelled, as of the date of the decree.* The result of [fol. 1747] and purpose of these contentions would be to leave the agreements valid—therefore enforceable—until entry of the decree, except for the minimum price provision. It was in this setting and in relation to these contentions, that USG expressed its apprehensions above set out. The contest was whether the agreements were illegal only as to minimum price provisions or *in toto.*

14. The decree of November 7, 1949 adopted the contention of the Government and the licensees and declared the agreements "illegal, null and void" in their entirety.

15. When this Court granted a summary judgment on the remand and entered its decree, both the Government and defendant USG appealed. The Government objected to the decree as being too narrow and as inadequate to cure the ill effects of the illegal conduct of the defendants. USG contended its proffer of proof revealed issues of fact which this Court should have determined instead of granting the summary judgment.

16. On May 29, 1950, the Supreme Court dismissed the appeal of the defendants (339 U. S. 959) in a memorandum (339 U. S. 960) wherein it affirmed Article III of the November 7, 1949, decree and stating:

> "* * * Article III of the decree of the District Court of November 7, 1949, reading as follows: 'The defendant companies have acted in concert in restraint of trade and commerce among the several

states in the eastern territory of the United States to fix, maintain and control the prices of gypsum board and have monopolized trade and commerce in the gypsum board industry in violation of sections 1 and 2 of the Sherman Anti-Trust Act,' is affirmed. The corporate defendants and Samuel M. Gloyd, doing business as Texas Cement Plaster Company, are enjoined, pending further order of this Court, from (1) enforcing in any manner whatsoever the provisions of their current license agreements fixing, maintaining, or stabilizing prices of gypsum board or the terms and conditions of sale thereof, and (2) from entering into or performing any agreement or understanding in restraint of trade and commece in gypsum boad among the several states in the eastern territory of the United States by license agreements to fix, maintain or stabilize prices of gypsum board or by license or other concerted action arranging the terms and conditions of sale thereof."

[fol. 1748] 17. On the appeal by the Government, the Supreme Court altered and broadened some of the provisions of the decree of November 7, 1949 and remanded the case "for further proceedings in conformity with the opinion" (340 U. S. 76, 95). In that opinion there was no direct reference to a situation such as is now presented to the Court arising from these USG suits; Article IV of the decree of November 7, 1949 of this Court which declared the license agreements illegal, null and void in their entirety was not changed.

18. On appeal by the Government, the Supreme Court also extended its injunction order of May 29, 1950 (339 U. S. 960) to be "continued in effect until the entry of a final decree in the District Court."

19. On May 15, 1951, this Court modified its earlier decree in accordance with the opinion of the Supreme Court. In connection with the formation of this decree, the plaintiff and various defendants submitted suggested forms for a decree. In none of these forms was there any provision as to whether or not USG was to receive compensation for use of its patents during the period

(1948-1951) covered by the pending USG suits. The forms contained provisions for future licensed use thereof on a reasonable royalty basis. There was no appeal therefrom. This is the present Final Decree.

20. The pattern of the Final Decree of ten Articles is as follows: Article I is the jurisdictional declaration; Article II is the definition of terms used in the Decree, these include "Patents" and "Patent Licenses"; Article III declares the defendants have acted in concert to violate Sections 1 and 2 of the Act; Article IV is that "Each of the license agreements listed in Article II hereof is adjudged unlawful under the anti-trust laws of the United States and illegal, null and void"; Article V con-
[fol. 1749] tains the injunction provisions; Article VI covers non-discriminatory compulsory license agreements from USG to applicants therefor, subject to approval of the District Court; Articles VII and IX are not material here. Article VIII provides for supervision by the Department of Justice to secure compliance with the Decree; Article X is the reservation of jurisdiction for the purposes of construction of, carrying out of, or enforcement of the Decree.

21. A condensation of the method or plan of the Decree to remedy the unlawful situation may be stated as follows: by annulling the existing named license agreements; by injunction against acts which would tend to defeat the Decree; by use of new compulsory Court supervised license agreements; by Department of Justice supervisory inspections; and by retention of jurisdiction to protect and effectuate the purposes of the Decree.

22. USG did not purge the misuse of its licensed patents. USG urges five facts which it claims (separately or cumulatively) constitute evidence of purge at a time prior to May 15, 1951. These are as follows:

> A. That USG did not fix prices, under its licenses, after July 8, 1941. This is true. However, its effect is dissipated by two considerations: first, the notices that minimum prices bulletins would be suspended included the statement that such suspension would continue "until we decide again to exercise our right

to do so"; and, second, this price-fixing provision is inseparably joined with the other provisions found violative of the Act.

B. The claimed acquiescence of USG to the repudiation of the illegal agreements by Petitioners following the first appeal (333 U. S.). The record [fol. 1750] herein does not support the claim that USG "acquiesced" in these cessations of payments by Petitioners. In connection with the form of decree to be entered after summary judgment was granted, USG not only did not claim that the licenses had been rescinded but it urged strongly that only the minimum price-fixing provisions were illegal and that, in all other respects, the license agreements should be "cancelled" only as of the date of the decree to be entered. At that time and thereafter, it made clear that it expected to have and waived no rights to have "compensation" for the use of its patents; however, there was no suggestion as to what form enforcement of those rights would take if not voluntarily paid. Not until USG filed its suits against Petitioners was that made clear. Such suits included, among others, Counts for recovery under the unlawful agreements. Throughout, there is no basis for this claimed "acquiescence".

C. The offer by USG, early in 1949 (February or March), of new forms of licenses. Those proffered forms of licenses are not effective as acts of purge, as to the period covered by the pending USG suits, for two reasons. First, they were not intended to become effective until the entry of the decree because it was not until then that the unlawful license agreements were to be "cancelled and terminated" (Article IV, 2 of the form of decree submitted by USG on March 4, 1949). Second, they differed in several respects from the form approved by the Supreme Court (340 U. S. 76).

D. USG's decision not to appeal from the decree of November 7, 1949, "unless the Government appealed, in which event it felt it would be required [fol. 1751] to appeal, in self defense." Neither this

unacted upon decision not to appeal nor an appeal by the Government in any way affects this matter of purge. The two appeals (USG and the Government) involved entirely different legal issues and situations. USG appealed from the entry of any decree "on the ground of their right to introduce material evidence" (340 U. S. at p. 82); the Government appealed solely "in an effort to have the provisions of the District Court decree enlarged" (340 U. S. at p. 82).

E. The fact that the Supreme Court (339 U. S. 960) enjoined USG, on May 29, 1950, from "enforcing in any manner whatsoever" the price provisions of the license agreements. Thoe USG suits now pending show conclusively, however, that even now it is striving to enforce the royalty provisions of the illegal patent license agreements.

Neither taken separately nor cumulatively do any or all of these matters amount to evidence of purge by USG of its misuse of its patents.

23. In January, February or March, 1953, USG filed separate similar actions against four of the other corporate defendants in the Anti-trust action. These suits were against the National Gypsum Company, in the Northern District of Iowa; Certain-Teed Products Corporation, in the same District; Newark Plaster Company, in the District of New Jersey; and the Ebsary Gypsum Company, in the Southern District of New York. Each of these suits was based on alternative claims for royalties or for the reasonable value of the use of certain of its patents or for damages because of infringement. The time period covered by each of these four suits was, roughly, from the first opinion by the Supreme Court (March 8, [fol. 1752] 1948), to the date of the Final Decree (May 15, 1951), and, as to Newark and Ebsary, up to the filing of the complaint against each of them.

24. In these suits USG seeks judgment against National for $1,600,000; against Certain-Teed for $650,000; against Ebsary for $100,000 on Counts I and II and in the alternative $160,000 on Counts III, IV and V, and $85,000 on

Count VI; against Newark for $120,000 on Counts I and II and in the alternative $185,000 on Counts III, IV and V, and $100,000 on Count VI; and interest (except as to Counts V and VI) and costs of suit against each defendant.

25. USG also asserted claims against The Celotex Corporation and against Kaiser Gypsum Company for the alleged use of its licensed patents for the period from February 1 or March 1, 1948 to May 15, 1951.

26. The complaints filed by USG in the various District Courts contain five Counts each in the actions against National and Certain-Teed, and six Counts each in the actions against Ebsary and Newark.

27. The first two Counts of all four complaints are directly or indirectly based on the license agreements set forth in Article II of the decree of November 7, 1949.

28. Count III of the USG complaints is a common law action of *indebitatus assumpsit* based on a pleaded express contract. That contract and the relief sought are so stated and designed to bring about the identical recovery that would be realized had the actions been for recovery upon the royalties provided in the illegal agreements. The amounts sought in Count III of the Ebsary and the Newark suits are more than under Counts I and II thereof because of the different periods of time involved.

29. Count IV of the USG complaints is for *quantum* [fol. 1753] *meruit* covering the use of the patents.

30. Counts V and VI of the USG complaints allege infringement of USG's patents.

31. The amounts sought in Counts III-V of these suits for the period prior to the Final Decree are precisely the same as the amounts as measured by and sought as royalties in Counts I and II. In Counts I and II the amounts are sought to be recovered by means of enforcing the covenant to pay in the old unlawful license agreements.

32. The patent alleged to be infringed in the USG suits against National Gypsum Company and Certain-Teed Products Corporation is patent Roos No. 2,017,022. The USG suits against Newark Plaster Company and Ebsary

Gypsum Company allege in addition infringement of patents Roos Nos. 2,079,338; 2,080,009; and 2,044,401 for the period prior to and after May 15, 1951. All of the foregoing patents were licensed by USG under one or more of the patent licenses defined and enumerated in paragraph 5 of Article II of the Final Decree of May 15, 1951.

33. Application for patent No. 2,044,401 was filed by Roos on August 15, 1929 and later assigned to USG, to which the patent was issued on June 16, 1936. This patent related to the use of dextrinized starch in gypsum board core composition and method of manufacturing same. This patent was an improvement patent and, as such, was included as paragraph 18 of the licenses to Newark and Ebsary. (See transcript in the Supreme Court, October Term, 1947, No. 13, pp. 4416 and 4488).

34. Seasonably after entry of the Final Decree, National and Certain-Teed applied for and received licenses thereunder. Newark and Ebsary have never applied therefor. In the USG complaints against Newark and Ebsary, [fol. 1754] it seeks recovery (Counts I-II) for license royalties on patents covered by the old licenses—that recovery included only the period ending with the Final Decree. Each of the succeeding Counts sought recovery "to the date of filing this complaint."

35. Neither Newark nor Ebsary have filed answer in the USG suits. The Court was informed in this presentation that such answers would include a denial of use of these USG patents during the period subsequent to May 15, 1951. Such defenses would pose the direct issue of infringement *vel non* since the Final Decree.

36. The defendant in each of the four suits filed by USG, hereinabove described, has filed in this Court and as a proceeding in this case (Civil Action No. 8017) its separate petition to enjoin the USG suit against it and for assocated relief. Very broadly stated, these petitions are based on claimed protection of the Final Decree in the Anti-trust case, on misuse of patents, and on prevention of a multiplicity of actions. Stay orders have been entered in the two Iowa District cases to await action here.

We have no information of any similar action in the two other cases.

37. The United States has filed a petition to enjoin USG from asserting any claim or suit "in whole or in part on any of the license agreements adjudged illegal, null and void by the final decree of this Court entered on May 15, 1951, or on any provision thereof." As to any claim based on such license agreements, the United States alleges that such "are barred by, and constitute an attempt to defeat, said decree." As to any "alternative claims" set forth in such four suits, the United States "takes no position" as to whether or not they are barred by the Final Decree.

[fol. 1755] CONCLUSIONS OF LAW

1. Defendant Petitioners are parties to the original Anti-trust suit asserting rights under the Final Decree. Where a decree specifically or by fair implication accords rights to parties thereto, the parties have a standing to enforce such right in a manner consonant with the underlying purposes of the decree. Petitioners have standing to apply to this Court for enforcement, construction or the carrying out of the Final Decree.

2. This Court has jurisdiction to entertain and determine the issues presented by Petitioners because such jurisdiction is expressly reserved by Article X of the Final Decree.

3. In addition to such expressly reserved jurisdiction, this Court has jurisdiction to entertain and determine the issues presented by Petitioners based on the inherent power of a court of equity to compel obedience to its decrees. Where it is seriously contended, as here, that the suits brought by USG do violate the Final Decree, this Court has jurisdiction to determine whether such violation exists; and, if it does exist, how it may be cured.

4. This Court has jurisdiction to entertain and determine the issues presented by Petitioners based on its jurisdiction to implement the Final Decree to effectuate its basic purposes. One method of seeking such implementation is by petition in the original action.

5. This Court has jurisdiction to entertain and deter-

mine the issues presented by Petitioners based on the long-established discretionary jurisdiction of an equity court to prevent multiplicity of actions. Such jurisdiction [fol. 1756] is present here because of the four present suits by USG and also the claims against Celotex and Kaiser. The matter of possible misconstruction or diversity of construction of the Final Decree is a reason for taking jurisdiction where there is a claimed multiplicity of actions, each involving the meaning and application of the Decree and affecting the complete effectiveness of the Decree.

6. It is not controlling as to the existence of jurisdiction that Petitioners might urge the Final Decree as a defense in the USG suits. That fact does not affect the existence of jurisdiction in this Court. It is relevant merely on the question whether this Court, in its discretion, should exercise such jurisdiction instead of leaving the issues to be determined in the USG suits.

7. Article IV of the decree of November 7, 1949 nullified completely the license agreements listed in Article II. This nullification did not create a status. It simply declared a status which had existed since the granting of the patent licenses. Article IV passed into the Final Decree unchanged. Accordingly USG should be enjoined from further prosecuting the first two Counts in each of the four suits brought by it against the Petitioners, since these Counts clearly violate the express provisions of Article IV.

Article IV of the Final Decree did not expressly nor impliedly cover the character of suits now brought by USG for infringement or for *indebitatus assumpsit* or for *quantum meruit*. It neither allowed nor forbade such.

8. The purpose and permissible function of an order for modification of an anti-trust decree is to cover something within the broad purposes of the decree but which, for some proper reason, was not included in the existing decree. Almost always such modifications are concerned [fol. 1757] with remedies. Usually they concern situations which were either overlooked at the time the decree was entered or which have arisen or developed after the decree.

9. The power to make any proper modification of the Final Decree is expressly reserved in Article X. That Article performed the function of expressly reserving jurisdiction to take further action, if experience thereafter should make such necessary are advisable, fully to effectuate the purposes of destroying the monopoly and the conspiracy and denying the fruits thereof. The Court has power to make any modification which will, "so far as practicable, cure the ill effects of the illegal conduct . . ." (340 U. S. at pp. 88-89)

10. In addition to such expressly reserved power, this Court as a court of equity has inherent power to modify its decrees so as to make them fully effective, provided, however, that the decree may not be enlarged beyond its intended proper scope by the medium of modification.

11. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in these suits by USG, establish that USG did not purge itself of its patent misuse at any time prior to May 15, 1951. The five acts claimed by USG to constitute acts of purge prior to May 15, 1951 do not constitute purge

12. In view of the misuse by USG of its patents as a matter of law on the facts here, which has not been purged, all claims of USG are barred, and USG should be enjoined from further prosecution of all Counts of these actions.

13. The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the [fol. 1758] illegal license agreements up to this time. The attempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree.

14. Count III of the USG petitions, for *indebitatus assumpsit,* is but a left-handed, indirect method for recovering the royalties provided in the illegal license agree-

ments. The Decree should be modified to enjoin prosecution of Count III of the USG petitions.

15. Count IV of the USG petitions, the *quantum meruit* Counts, are enjoined on the basis of preventing recovery in a multiplicity of suits wherein the misuse of the patents which were involved in this Anti-trust suit is shown, as a matter of law, to exist and not to have been purged.

16. Both because of the practical nad legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits.

ORDER ADOPTING FINDINGS AND CONCLUSIONS

The foregoing thirty-seven Findings of Fact and the foregoing sixteen Conclusions of Law are found and adopted by a majority of the Court. Except as contained, in substance, in the foregoing, all requests or proposals for Findings or for Conclusions are denied.

Dated this 9th day of December, 1954.

Kimbrough Stone, Judge, Eugene Worley, Judge

[fol. 1759] ORDER OF COLE, J. (Disseintng)

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Findings of Fact and Conclusions of Law and think these actions by Petitioners should be dismissed for lack of jurisdiction.

William P. Cole, Jr., Judge

[fol. 1760] [File Endorsement Omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, ET AL., Defendants

In re Petitions of NATIONAL GYPSUM COMPANY, ET AL., Petitioners, v. UNITED STATES GYPSUM COMPANY, Respondent.

DECREE—December 9, 1954

Petitions having been filed in this Court by defendants National Gypsum Company, Certain-Teed Products Corporation, Newark Plaster Company, and Ebsary Gypsum Company, Inc., on March 25, April 22, May 13, and June 3, 1953, respectively, for orders, modifications or directions for the enforcement, construction, or carrying out of the Final Decree of May 15, 1951 and

Plaintiff United States of America, having filed on June 30, 1953 its petition for order or directions for the construction, carrying out or enforcement of the Final Decree of May 15, 1951, and

Defendant United States Gypsum Company, having filed on September 8, 1953 separate answers to each of the above petitions, and

The Court, having read and considered said petitions and answers, and having heard the oral arguments of Counsel for all of the above parties on January 12 and 13, 1954, and having read and considered the briefs filed by them, and having rendered its majority and dissenting opinions on July 6, 1954,

[fol. 1761] It is therefore ordered, adjudged and decreed:

1. This Court has jurisdiction of the subject-matter of said petitions and of the parties hereto.

2. The Final Decree of this Court of May 15, 1951 is

hereby modified by adding to Article V thereof a paragraph reading:

> Defendant United States Gypsum Company is hereby ordered and directed to discontinue and to dismiss, with prejudice to United States Gypsum Company, its pending actions as follows: against National Gypsum Company, in the United States District Court for the Northern District of Iowa; against Certain-Teed Products Corporation, in the same District Court; against Newark Plaster Company, in the United States District Court for the District of New Jersey; and against Ebsary Gypsum Company, Inc., in the United States District Court for the Southern District of New York.

3. Costs arising out of these proceedings instituted by Petitioners shall be assessed against United States Gypsum Company.

Dated this 9th day of December, 1954.

Kimbrough Stone, Judge, Eugene Worley, Judge

For the reasons stated in the dissenting opinion filed herein on July 6, 1954, I dissent from the foregoing Decree and think these actions by Petitioners should be dismissed for lack of jurisdiction.

William P. Cole, Jr., Judge.

[fol. 1762] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

MOTION OF U. S. GYPSUM CO., FOR NEW TRIAL—
Filed December 20, 1954

Comes now United States Gypsum Company, hereinafter referred to as U. S. Gypsum, by its attorneys, and pursuant to Rule 59 of the Federal Rules of Civil Procedure, moves

the court to set aside the Findings of Fact and Conclusions of Law and Decree entered herein on the 9th day of December, 1954, and to grant defendant, U. S. Gypsum, a new trial on the grounds that:

1. The court erred in ruling that U. S. Gypsum, in seeking compensation for the use of its patents, has, as a matter of law, continued to misuse them up to this time (Majority Opinion filed July 6, 1954, hereinafter referred to as Op., pp. 34, 35 and 38; Conclusions of Law, hereinafter referred to as C. L., 11, 12, 13, 14 and 15).

[fol. 1763] 2. The court erred in ruling, without the taking of any evidence, that U. S. Gypsum has not purged its patent misuse and that, as a matter of law, certain facts of record do not show purge (Op. pp. 33-38; Findings of Fact, hereinafter referred to as F. F., 22, 22A, 22B, 22C, 22D and 22E; C. L. 11, 12, 13 and 15).

3. The court erred in ruling that the Final Decree of May 15, 1951, should be expanded beyond its basic purposes, and new rights created in the co-conspirator licensees, in disregard of the position of the Government (Op. pp. 4, 6, 25, 27, 32, 38; F. F. 6 and 7; C. L. 1-6, inc. and 9).

4. The court erred in ruling that the *Hartford-Empire* decision (323 U. S. 386 and 324 U. S. 570), and the practical and legal situation in this case required the denial of U. S. Gypsum's right to recover for infringement of its patents *pendente lite* (Op. pp. 27-32; F. F. 6 and 7; C. L. 16).

5. The court erred in ruling that because of its erroneous continued misuse ruling hereinbefore set forth in paragraph 1, U. S. Gypsum should be enjoined from prosecuting its *quantum meruit* counts in its pending suits against the defendant petitioners (Op. pp. 34, 35, 38; F. F. 22; C. L. 11-15, inc.)

6. The court erred in ruling that Count III in each of the pending U. S. Gypsum suits against the defendant petitioners is an action based on an express contract and designed to recover indirectly the royalties provided for in the illegal license agreements (Op. p. 32; F. F. 28; C. L. 14).

[fol. 1764] 7. The court erred in ruling that the Final Decree of May 15, 1951 should be amended by enlarging it to include a paragraph ordering U. S. Gypsum to dismiss, with prejudice, its pending actions against defendant petitioners (Op. pp. 25, 32, 38; C. L. 11-16, inc.; Decree of December 9, 1954).

8. The court erred in ruling that it has jurisdiction, and should exercise it, to grant the relief sought by the defendant petitioners (Op. pp. 7, 11, 25; C. L. 1-6, inc; Decree of December 9, 1954).

9. The court erred in its Findings of Fact numbered 5, 6, 7, 10, 20, 21, 22, 22A, 22B, 22C, 22D, 22E, 25, 28, 31, 32 and 33, respectively, in that they are contrary to the evidence and to law.

10. The court erred in its Conclusions of Law numbered 1, 2, 3, 4, 5, 6, 9, 11, 12, 13, 14, 15 and 16, respectively, in that they are contrary to law.

11. The decree of December 9, 1954, is contrary to law in that it is based upon and incorporates the erroneous rulings of the court hereinbefore set forth in paragraphs 1 through 10 hereof.

Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant, United States Gypsum Company, 1625 K Street, N. W., Washington 6, D. C.

[fol. 1765] CERTIFICATE OF COUNSEL

I, Cranston Spray, one of the attorneys for the defendant, United States Gypsum Company, do hereby certify that the foregoing motion for new trial is presented in good faith and not for delay.

Cranston Spray.

[fol. 1766] IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

POINTS AND AUTHORITIES IN SUPPORT OF UNITED STATES GYPSUM COMPANY'S MOTION FOR NEW TRIAL FILED DECEMBER 20, 1954.—Filed January 7, 1955.

United States Gypsum Company, hereinafter referred to as U. S. Gypsum, submits the following specific points of law and authorities and argument in support of its motion,* pursuant to Rule 59 of the Federal Rules of Civil Procedure, that the court set aside the findings of fact, conclusions of law and decree entered herein on the 9th day of December, 1954, and grant it a new trial because of the [fol. 1767] manifest errors of law and of fact as set forth in its said motion and as hereinafter more fully considered.

I

The Court Erred in Ruling That U. S. Gypsum, in Seeking Compensation for the Use of Its Patents, Has as a Matter of Law Continued to Misuse Them Up to This Time.

The majority opinion* rendered herein on July 6, 1954, and the conclusions of law numbered 11, 12, 13, 14 and 15, entered on December 9, 1954, erroneously hold that a continuing unpurged misuse of U. S. Gypsum's patents exists, as a matter of law, because it seeks compensation from its co-conspirators for their use of its patents. As a consequence the court concludes that U. S. Gypsum should be enjoined from further prosecution of all counts of its pending suits against the defendant petitioners.

This determination cannot be based on any evidence as

* For the court's convenience, a copy of U. S. Gypsum's Motion for New Trial is set forth in Appendix A hereof.

* Unless specifically shown otherwise, all references hereinafter made to the opinion of this court will be to the majority opinion filed on July 6, 1954, by "Op. p." followed by a page number. This court's findings of fact are referred to herein by "F/F" and its conclusions of law by "C/L."

to the factual situation existing during the 1948-1951 period here involved, or for many years prior thereto. Not only did the evidence in the original antitrust proceeding stop with the year 1941, but no evidence has been received by this court on the issues as to patent misuse and purge raised by the 1953 petitions and U. S. Gypsum's answers thereto.

Nor can this determination be based upon any claim that U. S. Gypsum is now using its patents to fix, maintain or stabilize prices, or to monopolize trade and commerce in the gypsum industry, by license agreements or by other acts or courses of action, or is attempting to enforce the price limitation provisions of the old patent license agree-[fol. 1768] ments. In fact, there is not an iota of evidence that U. S. Gypsum exercised or attempted to enforce any of those price limitation provisions since 1941. Moreover, during a substantial part of the 1948-1951 period here involved, all of the defendants, including U. S. Gypsum and the petitioners, were effectively restrained by injunctive orders of this court and of the United States Supreme Court against any misuse of patents by operation under the price limitation provisions of the old license agreements. No suggestion has been made that any of the injunctive provisions of the decrees of this court, or of the Supreme Court's order, has been violated in any manner.

Rather, this court has taken the erroneous position that because U. S. Gypsum has brought suits in 1953 to recover money for the actual use of its patents, for which compensation has not heretofore been paid, such a money action in some way constitutes a continued misuse of its patents. This determination apparently rests upon the facts, *first*, that these suits included two counts (*i.e.* Counts I and II) seeking to recover royalty under the illegal license agreements, and *secondly*, that the other alternate and inconsistent counts in these suits sought compensation in a like amount as that claimed under Counts I and II. This erroneous determination is not supported by any precedent and is violative of a number of well established legal principles.

(a) *The authorities.* Needless to say, the court, in its opinion, cites no authority for its continued misuse ruling. We know of no other case wherein it has been held that the mere bringing of a suit to recover money alleged to be due under an unlawful license agreement, and in the alterna-

tive compensation for use of patents, constitutes without more misuse of a patent as a matter of law. It is an entirely novel proposition in support of which no authority [fol. 1769] can be cited. Actually, the only decision we are aware of is to the contrary. In *Park-In Theatres, Inc.* v. *Paramount-Richards Theatres, Inc. et al.* (D. C. D. Del. 1950), 90 F. Supp. 730 (aff'd 185 F. 2d 407; cert. den. 341 U. S. 950), the complaint alleged two causes of action; one for an accounting for royalties on a licensed agreement, and a second, in the alternative, for infringement. The court rejected defendants' motion for summary judgment on the infringement count even though it found that the existence of the license, the basis of the first count, constituted misuse. The court held that the issue of purge involved questions of fact which precluded granting summary judgment. It did not consider that the mere inclusion of a count on the license was misuse as a matter of law.

(b) *The patent law codification.* The continued misuse ruling conflicts with the proposition that a suit to enforce a patent right is not *per se* against public policy, which is now conclusively established by the new codification* of the patent laws providing (Title 35 U. S. Code, Sec. 271(d)):

> "No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having done one or more of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement."

A patentee's right to grant a license (immunity from suit for infringement) and receive compensation therefor is clearly an enforcible right within the meaning of the new codification. Since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (such as Counts I and II) solely for the recovery of money does not in itself constitute misuse.

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* This codification went into effect on January 1, 1953. The U. S. Gypsum suits were filed thereafter.

[fol. 1770] (c) *The final decree and other orders.* The continued misuse ruling is inconsistent with the final decree entered in this case on May 15, 1951. If that decree established anything as regards rights between the various defendants, it was that although the petitioners should have the right to continued use of U. S. Gypsum's board patents, U. S. Gypsum was entitled to a reasonable compensation for such continued use.

U. S. Gypsum's suits have not relied upon or attempted to enforce any of the price limitation provisions of the condemned license agreements, which were the heart of the adjudication of their illegality. Obviously, there is no concerted action of co-conspirators involved in the bringing of the suits. All that U. S. Gypsum seeks is fair compensation for the use of its patents, which is not only entirely consistent with the provisions of the final decree of May 15, 1951, but also with the comparable provisions of the November 7, 1949 decree, and with the injunctive provisions of the Supreme Court order of May 29, 1950, enjoining *only the price limitation provisions* and not the old license agreements in their entirety, as the opinion erroneously states a number of times.*

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* The opinion says on page 16 that Article IV of the November 7, 1949 decree nullified completely the old license agreements and that the Supreme Court order of May 29, 1950, made Article IV effective *pendente lite* "by enjoining any continued performance thereunder"; on page 20, that the Supreme Court dismissed the defendants' appeal, affirmed Article III and "entered an injunction against 'enforcing in any manner whatsoever' the license agreements"; on page 29, that this injunction "expressly forbade defendants from 'enforcing in any manner whatsoever' the existing license agreements and this status was thereafter continued up to the final decree"; and on page 34 that it "enjoined defendants 'from enforcing in any manner whatsoever the provisions of their current license agreements * * *'. This order * * * was continued in force until the Final Decree." A careful reading of the Supreme Court order of May 29, 1950 (Op. pp. 2-3) will establish this court's misunderstanding of its scope and effect which obviously influenced the decision of the court in this proceeding.

U. S. Gypsum's suits, being simple suits to recover money for the actual use of its patents, could not possibly be said to constitute patent misuse. Even if Counts I and II be held to conflict with Article IV, as this court concluded (Op. p. [fol. 1771] 16; C/L 7), there is no basis for holding that such a violation, involving as it did only an attempt to collect money for the actual use of the patents, constituted patent misuse such as would prevent recovery of compensation upon alternative and inconsistent statements of claim. To so hold is to inject a principle, without benefit of any evidence, inconsistent with the court's prior determination that U. S. Gypsum was entitled to be compensated for the continued use of its patents by the petitioners.

(d) *Federal Rules of Civil Procedure.* The continued misuse ruling violates the rules of modern pleading and penalizes U. S. Gypsum for following the Federal Rules of Civil Procedure, Rule 8(e)(2) of which provides:

> "A party may set forth two or more statements of a claim or defense alternately or hypothetically, either in one count or defense or in separate counts or defenses. When two or more statements are made in the alternative and one of them if made independently would be sufficient, the pleading is not made insufficient by the insufficiency of one or more of the alternative statements. A party may also state as many separate claims or defenses as he has regardless of consistency and whether based on legal or on equitable grounds or on both. * * *"

When U. S. Gypsum's complaints against National, Certain-teed, Ebsary and Newark were being drafted, U. S. Gypsum was faced with the very real problem, in view of the unique factual situation, of stating proper theories of action upon which recovery for the use of its patents, with or without permission, could be had. If the facts to be subsequently proved, and the law applicable thereto, showed that the defendant had used those patents without license, U. S. Gypsum could recover on its infringement count. If the defendant had a license, then there could be no recovery for infringement, but only on counts based upon such licenses as might be proven to exist. But there

[fol. 1772] was a further question as to what licenses or kind of licenses, if any, might be found in fact and in law to exist, upon which the defendant might rely. It was possible that a defendant might defend by pleading it was licensed during the period in question under the old license agreements declared illegal in the final decree, as National actually did in its Eighth Defense to the infringement count in the Iowa suit.* In anticipation of such a defense, U. S. Gypsum felt compelled to include Counts I and II lest the court rule that it failed to plead a proper basis for its claim (6/9/53 Hearing, Tr. 24-25; U. S. G. B.** pp. 86, 99). It was a proper and necessary precautionary measure, authorized by the Federal Rules of Civil Procedure. No authority or precedent has ever suggested that such caution in pleading could possibly constitute evidence of continued misuse of a patent, as a matter of law, particularly when the various counts only assert money claims for royalties or compensation for the actual use of the plaintiff's patents.

Apparently misunderstanding U. S. Gypsum's position, the opinion states (p. 16):

> "* * * We are not impressed by the contention of U. S. G. that these two Counts are necessary or useful to meet possible factual situations which might arise in the trials of these suits. Those Counts state definitely grounds for claimed relief and must be so regarded. * * *"

Of course, they state grounds for claimed relief, and were so intended. All U. S. Gypsum has attempted to do in its now pending suits is to recover a reasonable royalty or compensation for the use of its patents, with or without its permission, upon whatever theory the trial court might determine to be appropriate. If Counts I and II were held [fol. 1773] to be without merit, the worst consequence should be the dismissal of those counts. In holding that

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* National's amended answer (pp. 20-21), a copy of which was filed with this court pursuant to its request.

** Brief of U. S. Gypsum filed herein on September 8, 1953 will be referred to by "U. S. G. Br. p." followed by a page number.

U. S. Gypsum thereby forfeited its right to recover for the use of its patents, this court has severely penalized it for pleading alternate and inconsistent claims in accordance with the Federal Rules of Civil Procedure. Such a penalty is unfair and unnecessary. It has no justification in a court of equity.

(e) *The quantum meruit and infringement counts.* The continued misuse ruling shows further misunderstanding of the facts and the law in seeming to attach the stigma of misuse of patents to the counts other than Counts I and II (Op. pp. 32, 34-35; F/F 27, 28, 31; C/L 7, 11, 13-16). Thus, the court erroneously states that the other counts are "posed on the same underlying factual situation created by the license agreements," and it treats the similarity in the *ad damnum* as significant (Op. pp. 32, 34-35). It even attaches significance to the prayer for damages in the infringement count, where statutory language was used.

There is no basis for the statement that all of the counts were posed on the same underlying factual situation; actually, they were based upon inconsistent theories and factual situations. In attaching significance to the similarity of the *ad damnum* clauses, the court overlooks the well accepted principle of patent law that where parties, as in this case, have established a rate of royalty for the use of a patent in arm's length negotiations, not only prior to the period involved but also subsequently thereto (as was done here by National and Certain-teed in the licenses taken after the May 15, 1951 decree), that royalty rate serves to establish the reasonable compensation for the use of the patent, and the patentee cannot expect to be able to recover more (See U. S. G. Br. pp. 81-83). Moreover, the court fails to appreciate that the quantity of board on [fol. 1774] which compensation for use of the patent would be collectible was bound to be the same in each count covering the same period of time, for U. S. Gypsum was only suing for the *actual use* of its patents and only attempting to recover compensation on gypsum board actually embodying the claims of its patents or made by the use of such patents. It did not seek recovery (even in Counts I

and II) of the royalty provided for in the old license agreements, *i.e.*, 1% of the selling price of all board for the privilege of using the patents, whether or not they were used. If the patents were used at all, the damages in each such count were bound to be the same. There is no merit in the conclusion that the similarity in the *ad damnum* evidences an attempt to recover indirectly, on counts other than Counts I and II, the royalty provided for in the old license agreements.

The continued-misuse-as-a-matter-of-law ruling is clearly wrong. The findings of fact, conclusions of law and decree entered December 9, 1954, based on that ruling, are equally erroneous and should be set aside.

II

The Court Erred in Ruling, Without the Taking of Any Evidence, That U. S. Gypsum Has Not Purged Its Patent Misuse and That as a Matter of Law Certain Facts of Record Do Not Show Purge.

A second basic error in the opinion of July 6, 1954, and the findings, conclusions and decree entered December 9, 1954, lies in the determination that the earlier misuse of U. S. Gypsum's patents as a matter of law has not been purged (Op. p. 34; F/F 22A-22E; C/L 11-13, 15). This conclusion is reached despite the fact that the court would deny U. S. Gypsum any opportunity of presenting evidence of a purging of the misconduct with which it is charged, [fol. 1775] and apparently results from the court's misconstruction of U. S. Gypsum's contentions regarding certain evidence of purge already in the record.

(a) *Denial of right to be heard.* The question of purging of patent misuse necessarily involves a factual inquiry into the circumstances of the particular case and cannot be decided as a matter of law until all of the pertinent facts are known (U. S. G. Br. pp. 131-134). The court has erroneously overlooked this established principle. It also fails to recognize the fact that the record before it was compiled over twelve years ago and that all issues which have been previously decided in this case were based upon facts which existed when the Government's complaint was filed in August 1940.

Admittedly, no issue of purging was ever presented to this court prior to the filing of the petitions and answers thereto in 1953, and although issues with respect thereto were squarely raised by the 1953 petitions and answers, no evidence on those issues has ever been presented.

In addition to the record facts bearing on the question of purge, there are a number of other factual issues raised by the 1953 petitions and the answers thereto on which U. S. Gypsum has never had its day in court. The opinion would effectively preclude U. S. Gypsum from ever showing, for example, that in fact not only a decade of time but also an intervening war had caused the effects of any earlier patent misuse to have been wholly dissipated prior to May 15, 1951. It would preclude U. S. Gypsum from ever offering its evidence to prove that shortly after the first Supreme Court decision in March 1948, when the co-conspirator licensees repudiated their licenses, it acquiesced in that repudiation—evidence compelling the conclusion that the offending license agreements were cancelled by mutual consent at that time, clearly establishing purge.

It is unfair and inequitable now to deprive U. S. Gypsum [fol. 1776] of its day in court by undertaking to determine the purge issue, a factual determination, without a full consideration of all pertinent evidence. U. S. Gypsum's answers to the petitions have raised material issues of fact which cannot be resolved against it as a matter of law without such a factual inquiry. That the presence of such factual issues calls for evidence and not a summary judgment is well established by the authorities (See U. S. G. Br. pp. 131-134).

(b) *Misconstruction of purge contentions.* Understanding that factual issues, including that of purge, would be subsequently proved after preliminary legal questions had been decided (see 6/9/53 Hearing, Tr. 6, 8, 9, 29-31; see also, National's brief filed herein, pp. 67-68), U. S. Gypsum nevertheless contended (U. S. G. Br. pp. 134-140) that there were certain facts already of record which constituted evidence of purge at a time prior to May 15, 1951, sufficient not only to preclude a conclusion against it, as a matter of law, but even to resolve the purge issue in its favor. It discussed five such facts of record with the express reser-

vation that they were "only illustrative and not the only or exclusive facts showing purge." The purpose of U. S. Gypsum's reservation in its brief was to make it clear that reference was made only to matters already of record and not to other factual issues of purge raised by the 1953 petitions and answers thereto (See U. S. G. Br. p. 134). It was certainly not its intention to submit those five points as the only evidence that would be offered on an actual trial of that particular issue, which had not heretofore been before the court, in the event the court determined that it had and should exercise jurisdiction. But this court's treatment of these five facts as the only evidence of purge has brought about a wholly erroneous and inequitable result.

(1) In the first place, the court completely misses the point of one fact of purge relied on as a reason why this [fol. 1777] court could not conclude the issue of purge against U. S. Gypsum, as a matter of law, and why it should rule in its favor, *i.e.*, that on November 7, 1949 this court's decree was entered adjudicating the old licenses to be illegal, null and void, and enjoining their performance or enforcement (U. S. G. Br. p. 135; Op. p. 37; F/F 22D). The effect of this fact is readily apparent from the court's determination in another connection (Op. p. 16; C/L 7) that "Article IV of that decree [of November 7, 1949] nullified completely the license agreements listed in Article II." It was further recognized by the court's rejection of the sentence in the petitioners' proposed finding 15 that the decree of November 7, 1949 "never became effective." (See F/F 15, as proposed, and as entered 12/9/54). It was the effect of the decree itself, and not the incidental fact that U. S. Gypsum had decided not to appeal from the decree, that was relied upon by U. S. Gypsum. The court's reference to the incidental fact of U. S. Gypsum's decision not to appeal overlooks the facts that *first,* it was claimed in the Certain-teed brief filed herein (p. 53) that the November 7, 1949 decree did not constitute a purge because U. S. Gypsum appealed from it, and *second,* it was only to meet such a contention that the argument, erroneously referred to by the court as the fourth fact, was made.

(2) One of the important acts of purging shown of record was U. S. Gypsum's repeated offers of new licenses to the various defendants in 1949. These new licenses were untainted with any improper provisions in so far as the matter of patent misuse is concerned. The 1949 decree approved a form of license which for all intents and purposes is the same as that which U. S. Gypsum's licensees were offered in 1949 and which National and Certain-teed accepted for the period after May 15, 1951. Moreover, the form of license approved by the 1949 decree differed [fol. 1778] from that approved by the final decree only in respect of requirements in the latter: (1) that licensees' reports need not show any breakdown with respect to thickness and size of board; and (2) that verification of licensees' reports be made by an independent auditor or a person acceptable to both parties who should report only the amount of royalty due.

Can it be that such incidental changes made in the licenses can give rise to a plain legal implication that these changes were necessary in order to block effectually continued misuse by U. S. Gypsum of its patents? Definitely not, and the Supreme Court's decision (340 U. S. 76, 94-95) demonstrates that the provisions were not of such a character. Price fixing and all other objectionable features being removed, the proffered licenses were innocuous and legal in every respect, and the failure of National, Certain-teed, Newark and Ebsary to accept them should not operate to deprive U. S. Gypsum of the purging effect of its good faith offer.

In rejecting U. S. Gypsum's offer of new licenses as evidence of purge, because they differed slightly from the form approved in the final decree, the court states that the Supreme Court had found the definition of gypsum board* and also the time limit for applying for new licenses too restricted (Op. p. 37). That criticism of the compulsory licensing provisions of the November 7, 1949 decree of course, had nothing whatsoever to do with the purging effect of U. S. Gypsum's earlier offer to replace all of its

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* U. S. Gypsum agreed with this view (340 U. S. 76, 90), so there was no issue as to that point.

outstanding licenses with new licenses from which the objectionable clauses had been deleted.

The court finds that the proffered licenses were not intended to become effective until the entry of the decree, since it was not until then that the old agreements were [fol. 1779] to be cancelled and terminated (Op. p. 37; F/F 22C). U. S. Gypsum's offer of new licenses was not so limited, as appears from the proffered forms of license agreements filed with the court (see also 6/14/49 hearing, Tr. 8257-60). The proposed decretal provision cancelling the old license agreements was merely designed to dispose of, once and for all, any vestige of those agreements which had been replaced with new licenses. It cannot factually be given the fallacious significance attached to it by the court. In any event, the old license agreements were "nullified completely" by the November 7, 1949 decree (Op. p. 16; C/L 7).

(3) The court clearly erred in disposing of the contention that the abandonment of the old license agreements demonstrated purge (Op. pp. 36-37; F/F 22B). It finds (Op. pp. 28, 30) that the licensees abandoned the license agreements following the first Supreme Court decision on March 8, 1948. But it disposes of the averment set up in Count III of the pending suits that U. S. Gypsum "acquiesced" in that abandonment, by determining the issue without the benefit of evidence (Op. p. 36; F/F 22B). As this was a factual issue, not only in the Iowa suits but also before this court, it should not have been adjudicated without affording U. S. Gypsum the opportunity to prove its averment.*

(4) The court's rejection of the Supreme Court injunctive order of May 29, 1950, as showing purge, is premised upon its erroneous conclusion that U. S. Gypsum is still misusing its patents by the mere bringing of the

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* Counsel's statement referred to in fn. 17 (Op. p. 36) does not furnish a sound basis for conclusively determining the "acquiescence" issue against U. S. Gypsum; nor could that issue be concluded by the fact that in 1949 all parties were suggesting a final disposition of the old license agreements by providing for their cancellation in the decree.

suits to recover money for their use (Op. pp. 37-38; F/F 22E), a wholly novel and unsupportable doctrine. A further fallacious conclusion is contained in footnote 18 of [fol. 1780] the opinion (p. 38), stating that it is not material to the issue of purge that the injunction went beyond price fixing and extended to arranging the terms and conditions of sale of gypsum board. This injunction (which on the remand on the Government's appeal was "continued in effect until the entry of the final decree." Op. p. 3; F/F 18) was intended to and did operate as an effective bar to further misuse of U. S. Gypsum's patents *pendente lite* and, unless it was violated (which is not here questioned), is certainly evidence of purge as of that date.

(5) Finally, the court shows a misunderstanding of U. S. Gypsum's contention regarding the non-use of the price limitation provisions of the old licenses since 1941. Certainly such non-use is evidence of purge, and is particularly material on the dissipation of the illegal effects of the patent misuse.

The court's rejection of the purge facts of record is further erroneous in ignoring their cumulative effect. It is shocking that a court of equity would permit co-conspirators free use of U. S. Gypsum's patents, despite U. S. Gypsum's ten years non-use of price limitation provisions of the old licenses, the abandonment of those agreements by the parties, U. S. Gypsum's repeated offer of new, legally unobjectionable licenses, and the injunctions (respected and adhered to by U. S. Gypsum and its licensees) of this court and of the Supreme Court against misuse of the patents during much of the pertinent period. Assuming, *arguendo,* that these facts do not establish purge, as the opinion concludes, they are certainly sufficient, when taken with the other facts put in issue by the 1953 petitions and answers thereto, to prevent a summary judgment of non-purge, which is what this court's ruling amounts to.

This is made amply clear by the final decree of May 15, 1951 itself, the entry of which was not the first fact that [fol. 1781] dissipated the effects of patent misuse. If such misuse had not already ceased and its ill effects been dissipated, then the decree would have contained, as did the

*National Lead** decree, for example, provisions enjoining U. S. Gypsum from enforcing its patents prior to the final decree. Despite the Government's second appeal solely for the purpose of enlarging the decretal remedies, the Government included no request for an injunction against enforcement of U. S. Gypsum's patent rights.

The Court has committed manifest error in summarily disposing of the purge issues raised by the 1953 pleadings as a matter of law and without the benefit of evidence.

III.

The Court Erred in Ruling That the Final Decree of May 15, 1951, Should Be Expanded Beyond Its Basic Purposes, and New "Rights" Created in the Co-conspirator Licensees, in Disregard of the Position of the Government.

Neither the petitioners nor the court can point to any provision of the final decree, other than Article IV, as furnishing any basis for the claim that the suits brought by U. S. Gypsum were violative of the provisions of that decree. None of the injunctive provisions in any way prohibited U. S. Gypsum from recovering for the use of its patents, and the compulsory licensing provisions assured it a reasonable compensation for such use (Articles V and VI). The court concedes that Article IV does not, either expressly or by fair implication, cover the counts in U. S. Gypsum's pending suits other than Counts I and II, and that if the other counts are to be enjoined it must be by modification of the decree (Op. p. 25; C/L 7).

Although recognizing unequivocally that any modification of the decree must be within the basic purpose of the [fol. 1782] decree as originally entered (Op. p. 25; C/L 4, 10), the court violates this principle by approving amendments establishing new "rights" in the co-conspirators National, Certain-teed, Ebsary and Newark, in disregard of the position of the Government.

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* *United States* v. *National Lead Co.*, 63 F. Supp. 513 (S. D. N. Y., 1945), Aff'd 332 U. S. 319 (1947).

(a) *The basic purpose of the final decree.** The original proceeding was brought by the Government charging an antitrust violation by reason of the defendants' activities in the manufacture and sale of gypsum products, carried out in part under the guise of patent license agreements entered into by U. S. Gypsum, as licensor, and by National, Certain-teed, Ebsary, Newark and others, as licensees (1947 R. 1, 10-11). That litigation resulted in an adjudication that the defendant companies had acted in concert in restraint of trade and commerce to fix, maintain and control the prices of gypsum board, and had monopolized trade and commerce in the gypsum board industry in violation of Sections 1 and 2 of the Sherman Act. This adjudication, contained in Article III, is as this court's opinion states, "the heart of the final decree" (p. 27).

The basic purpose of the decree, then, was to give the Government adequate relief to prevent agreements or understandings in the future resulting in Sherman Act violations through license agreements or other acts or courses of action (see Arts. IV, V and VI of the decree; U. S. G. Br. Appen. vi-x). No suggestion has been made that the provisions of the decree have in any way failed to accomplish that purpose, and the Government, the sole spokesman for the public interest (*Buckeye Coal & Railway Co., et al.* v. *Hocking Valley Railway Co., et al.*, 269 U. S. 42; Judge Cole's dissenting opinion, p. 1), and the only party plaintiff in this case, has clearly stated its [fol. 1783] position with respect to the claims of the defendant petitioners for modification. The Government states that the purport of Article IV, in declaring the old license agreements illegal, null and void, was to bar enforcement of any claim based on those agreements and that U. S. Gypsum should be enjoined from prosecuting Counts I and II of its pending suits. But, the Government expressly states that it takes no position as to whether U. S. Gypsum's alternative claims for recovery on a *quantum meruit* basis, or for infringement, are barred by the final decree or as

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* For a more complete statement of the basic purpose of the decree, reference is made to U. S. G. Br. pp. 56-61.

to whether this court should enter an order enjoining prosecution of such alternative claims. The Government, which brought the suit, and alone represents the public interest, is apparently satisfied that the case should not be encumbered with extraneous issues of a private nature,* and that to modify the decree to enjoin the determination of those issues in the courts wherein they are pending is to expand the decree beyond its original purpose. If the Government believed that a modification of the decree to enjoin prosecution of the *quantum meruit* and infringement counts were necessary or appropriate to carry out the basic purpose of the decree, it would certainly have taken that position before this court.

The court nevertheless approves a modification of the decree (C/L 12-16; Decree of 12/9/54) to include an extraneous matter which it concedes was not dealt with at the time the decree was entered (Op. p. 25). This is done to assure the co-conspirator licensees the "right" to avoid payment for their actual use of U. S. Gypsum's patents, notwithstanding the fact that the final decree adopted their proposals that they should have the continued use of such patents, *but upon payment of a reasonable royalty therefor* (U. S. G. Br., p. 15, fn. 12).

[fol. 1784] (b) *Rights of defendants inter se.* Not only does this modification go beyond the basic purpose of the decree, but it also violates the well established principle that the rendition of a judgment in an action does not conclude parties to the action, who are not adversaries under the pleadings, as to their rights *inter se,* upon matters which they did not litigate or have an opportunity to litigate between themselves; in other words, a judgment in favor of a plaintiff against two or more defendants is not conclusive of the rights and liabilities of the defendants *inter se,* except as to matters expressly put in issue between them, by cross-complaint or other adversary pleadings, and determined by the judgment in the first action.*

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* *U. S.* v. *Columbia Gas & Electric Corp.,* 27 F. Supp. 116 (D. C. Del. 1939).

* Re-statement of the Law of Judgments, Sec. 82; 1 Freeman on Judgments, Sec. 422; 30 Am. Juris. 966-7; 101

There were no issues joined as between the defendant co-conspirators, nor did the court purport to make any adjudication of rights as between them, with this single exception: having declared the old license agreements illegal, null and void, the court assured the defendant licensees the right to continued use of U. S. Gypsum's patents for a limited time, *but upon payment of a reasonable royalty therefor.***

(c) *Petitioners as co-conspirators.* Moreover, there is no justification whatsoever for the extent to which the opinion has gone in modifying the prior decree to establish new "rights" in companies which have been adjudged guilty of conspiracy. It is not believed that a court of equity has ever shown more tender concern for the interest of certain co-conspirators at the expense of another. The court finds (F/F 6 and 7):

> "6. One result of the patent misuse was to create [fol. 1785] an economic situation where the conspirators—other than USG—had organized their manufacturing plants and conditioned their business operations upon the continued use of these patent rights which had been given them by the license agreements.
>
> "7. When the Supreme Court (333 U. S. 364) determined these license agreements to be violative of the Act, these licensees were placed in an uncertain and perilous position. They were operating based on the licenses which were declared violations of the Act. They elected to disregard the license agreements and to continue use of the patented devices and methods."

In its opinion, the court said, in referring to the *Local Loan* case, that there, as here, there is a basis for juris-

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A. L. R. 104; 142 A. L. R. 727; 152 A. L. R. 1066; *George A. Fuller Co.* v. *Otis Elevator Co.*, 245 U. S. 489 (1918); *Fouke* v. *Jordy*, 289 F. 220 (C. A. 5th, 1923); *City of Owensboro* v. *Westinghouse*, 165 F. 385 (C. A. 6th, 1908).

** Decree of May 15, 1951, Art. VI; Decree of November 7, 1948, Art. VI and VIII; U. S. G.'s Br. Appen. pp. vii, xviii and xix.

diction "to secure or preserve the fruits and advantages of a judgment or decree rendered therein" (Op. p. 10).

Just what "fruits and advantages" a co-conspirator is entitled to in an antitrust decree is indeed difficult to comprehend. If co-conspirators National, Certain-teed, Ebsary and Newark conditioned their business operations upon the continued use of U. S. Gypsum's patents, that was part and parcel of their participation in the conspiracy. This court cannot equitably say that for their transgressions they should benefit by the free use of those patents when the decree itself required payment for their continued use. The petitioners National, Certain-teed, Newark and Ebsary were all conspirators. How does it lie in the mouth of any one of them to say that, by the mutual misconduct of all of them, they can refuse to pay for the use of the patents? How can a court of equity hold that it should amend the decree, upon petition of guilty parties, to enjoin a patentee against the simple act of maintaining a suit in another court to recover money for their use of the patents? The cases establishing the misuse doctrine can have no such application as between co-conspirators or law violators.

[fol. 1786] The court in this instance even goes so far as to hold that the co-conspirators' illegal activity created "rights" enabling them to grab the reins from the Government and obtain an amendment of the decree in order to protect and enforce their spurious private "rights."* The error is further accentuated in that this conclusion is reached without the taking of any evidence covering the period involved or for many years prior thereto.

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* The opinion (pp. 7-9) relies heavily on *Missouri-Kansas Pipeline Co.* v. *United States,* 312 U. S. 502, to support the conclusion that the petitioners were given "rights" in the final decree which supported their peititioners for relief. That case is wholly dissimilar. There the petitioner was not a co-conspirator, but a victim of the conspiracy, and the decree had specifically given it the right to intervene.

IV

The Court Erred in Ruling That the Hartford-Empire Decision (323 U. S. 386 and 324 U. S. 570) and the Practical and Legal Situation in This Case Required the Denial of U. S. Gypsum's Right to Recover for Infringement of Its Patents Pendente Lite.

The court gives two reasons for ordering the modification of the final decree to include a denial of recovery upon infringement counts of the pending U. S. Gypsum suits: (1) the teaching in the *Hartford-Empire* case,** and (2) "the practical and legal situation here" (Op. pp. 27-32; F/F 6 and 7; C/L 16). Neither reason is sound.

(a) *Hartford-Empire.* The reliance on *Hartford-Empire* is based upon a misreading of certain language in the *Hartford-Empire* opinion on reconsideration (324 U. S. 570, 572), from which this court erroneously concludes that the Supreme Court there made some distinction between a *quantum meruit* recovery and an infringement recovery. Actually, that Court was dealing with two different claims and not with different remedies for the same claim.

[fol. 1787] The Hartford licensees (most of whom were not co-conspirators) had licenses covering not only the use of Hartford's patents, but also the lease of machinery and the furnishing of services. The trial court had appointed a receiver *pendente lite,* who had collected the royalties payable by the licensees for the use of the patents and the leased machinery, and for the services rendered under the contract.

On appeal, the Supreme Court had held that the royalties paid to the receiver by the Hartford licensees-lessees should be paid over to Hartford, unless the trial court found that since the entry of the receivership decree Hartford had violated the antitrust laws or the decree, but that "in any event" (whether or not it had violated the law or the decree) Hartford should receive out of the royalties, compensation on a *quantum meruit* basis "for services rendered to lessees" (323 U. S. 386, 411).

** *Hartford-Empire Co.* v. *United States,* 323 U. S. 386 (1945); decision on reconsideration, 324 U. S. 570 (1945).

On petition for rehearing, the Government pointed out that, but for the receivership, many licensees would not have paid further royalties and might be able to justify such refusal. The Supreme Court, on further consideration, recognized that each licensee might have elected to repudiate its lease and license, return the leased machinery, refuse to pay further rentals and royalties, and defend any suit arising out of such refusal to pay, either for infringement or otherwise, and that possibly the licensees did not do so because they relied on the return of royalties paid the receiver, as provided by the decree. Accordingly, it modified its original handling of this matter, segregating what should be done as to the leased machinery and services and what as to claims for use of the patents. Thus, the Court held that *under any circumstances* (*i.e.*, regardless of law or decree violation) the licensees must pay reasonable rentals and service charges on a *quantum* [fol. 1788] *meruit* basis for the machines used and services received during this period, leaving out at that point consideration of any amount otherwise payable for the privilege of using Hartford's patents (324 U. S. 570, 572).

The Court then considered the amount to be paid for using the patents, and ruled that unless Hartford had been guilty of some added violation of the antitrust laws since the District Court decree, the licensees must elect either (a) to remain licensees on such reasonable rental and royalty basis for the future as the District Court might fix, or (b) repudiate the licenses and litigate against Hartford their right to any portion of the rents and royalties beyond that which Hartford was to receive in any event (324 U. S. 570, 572). In other words, if any licensee chose to repudiate its license agreement, it could litigate with Hartford as to the amount that Hartford might retain of that part of the royalties collected by the receiver that was not for machines and services, but if any licensee chose to continue to use Hartford's patents and machinery, then Hartford could retain the fund and the licensees were compelled to pay, for future use, a reasonable rental and royalty as determined by the District Court.

In fact, there was an ultimate settlement made between Hartford and various licensees, whereby the receiver was to pay each licensee who executed a covenant not to sue

Hartford for any transaction occurring prior to the date of the final decree, a sum equal to 60% of the royalties which the particular licensee had paid the receiver, less certain minor expenses, and to pay the remaining 40%, less certain incidental amounts, to Hartford (see Par. 11, *Hartford-Empire* final decree of October 31, 1945, and *Buck Glass Co.* v. *Hofferbert*, 176 F. 2d 250 (C. A. 4th, 1949)). This resulted in Hartford's receiving a total of $7,267,049.82 from its licensees during this *pendente lite* [fol. 1789] period.* If Hartford was permitted to receive over $7,260,000 under its outstanding licenses which were invalidated by the decree, the *Hartford* case is certainly authority *against* enjoining U. S. Gypsum from seeking reasonable compensation for the actual use of its patents by its co-conspirators during a comparable *pendente lite* period.

This court's speculation (Op. pp. 31-32) that the Supreme Court language in *Hartford* shows that the court had in mind differences in the bases of recovery on *quantum meruit* and for infringement (*i.e.*, differences in measurement of damages for infringement and on *quantum meruit*) is completely without foundation and can furnish no basis whatsoever for the conclusion that the infringement counts should be enjoined. This is shown not only by the Government's petition for reconsideration in that case and the various briefs of the parties filed with the Supreme Court before its second opinion, which in no way discussed or considered differences in the bases of recovery, but also by the final decree that was entered in *Hartford-Empire*, which made no such distinction.

(b) *The "practical and legal situation."* The so-called "practical and legal situation here" is equally ineffectual in furnishing any proper basis for enjoining the infringement counts.

The "practical situation" relied upon is set out in nine numbered paragraphs of the opinion stating in rather inadequate fashion certain events in the course of the main litigation (Op. pp. 27-29), some of which are incorporated

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* "Final Report and Account of Operations of Receiver of Hartford-Empire Company" (p. 5) filed Dec. 20, 1945 in Civil Action No. 4426, U. S. Dist. Ct. N. D. Ohio W. D.

in the court's findings of fact (F/F 1, 2, 3, 4, 6, 7, 8, 11-14, 16 and 18). Notwithstanding everything there stated or found, the court has concluded that the final decree in this case did not cover the matter of U. S. Gypsum's right to [fol. 1790] sue for infringement or for *quantum meruit* for the use of its patents during the 1948-1951 period (Op. p. 25; C/L 7). Despite this conclusion, the court uses these same facts as the basis for ruling that the decree should be modified to include a denial of recovery upon the infringement counts because of the "economic situation" in which the conspirators other than U. S. Gypsum found themselves following the Supreme Court's first opinion (Op. p. 30; F/F 7).* In the co-conspirators' election to repudiate the old license agreements and to continue using U. S. Gypsum's patents,** the court erroneously, as we have shown, saw "a close parallel—if not indeed a here controlling guide" (Op. p. 30).

Thus, neither of the grounds advanced by the court to support its modification of the final decree to enjoin the infringement counts is tenable. One of them, the *Hartford-Empire* decision, actually supports U. S. Gypsum's right to compensation for use of its patents *pendente lite*.

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* For a further statement as to the error in this solicitude for co-conspirators, see *supra*, pp. 19-21.

** The opinion states that they elected to disregard the license agreements and to continue use of the "patented devices and methods." At another point, in describing the old license agreements (p. 28), it is said that they included "both process and machinery covered by the patents." This suggests an unawareness of the fact that basic product patents were included which were essential in the manufacture and sale of gypsum board. For example, Patent No. 2,017,022 (involved in all the pending suits) included seven product and five process claims. This, of course, is another of the many distinctions between this case and *Hartford-Empire*. There, none of the over 600 patents read on glass products.

V.

The Court Erred in Ruling That U. S. Gypsum Should Be Enjoined from Prosecuting the Quantum Meruit and Infringement Counts of Its Pending Suits and in Modifying the Final Decree Herein to Include Such an Injunction.

In conformity with the manifest errors of law and of fact hereinbefore discussed, the court erroneously con- [fol. 1791] cluded that U. S. Gypsum should be enjoined from prosecuting counts in its pending suits against the defendant petitioners wherein it is seeking reasonable compensation for the use of its patents on a *quantum meruit* recovery, or, in the alternative, damages for the infringement of its patents. To this end the court erroneously determined that the final decree of May 15, 1951 should be amended by enlarging it to include a paragraph ordering U. S. Gypsum to dismiss, with prejudice, its pending suits, and entered its decree of December 9, 1954 effectuating such an amendment (Motion for New Trial, Pars. 4, 5, 7 and 11). In this connection the court has also erroneously ruled that Count III of each of U. S. Gypsum's pending suits is an action based on an express contract and designed to recover indirectly the royalties provided for in the illegal license agreements (Motion for New Trial, Par. 6).

We have hereinbefore demonstrated the errors in the court's continued-misuse-as-a-matter-of-law ruling and its ruling, without the taking of any evidence, that U. S. Gypsum has not purged its patent misuse and that, as a matter of law, certain facts of record do not show purge (*supra*, Points I and II). It follows that in so far as the findings of fact, conclusions of law and decree entered herein on December 9, 1954, are based on those erroneous rulings, they are wrong and should be set aside. The automatic effect of such action would be to re-establish U. S. Gypsum's right to proceed on Count IV (seeking a *quantum meruit* recovery), for the opinion holds (pp. 32-33) that Count IV "is proper and prosecution thereof should not be enjoined unless U. S. G. is barred by unpurged misuse of its patents."

In fact, such a correction would also have the effect of

automatically re-establishing Count III of the respective suits on the theory of that count as stated to the court by U. S. Gypsum, *i. e.*, that it sought a *quantum meruit* recov- [fol. 1792] ery for the actual use of U. S. Gypsum's patents under circumstances from which the law would imply an agreement to pay (6/9/53 Hearing, Tr. 25; 1/13/54 Hearing, Tr. 147; U. S. G. Br. p. 85). Even on the construction placed on Count III by this court, *i. e.*, as a suit upon an express contract which should be enjoined as a left-handed way of recovering on the old license contracts (Op. p. 32; F/F 28; C/L 14), Count III should be reinstated, for in this finding and conclusion the court overlooks the fact that Count III expressly avers a rescission of the old license contracts and seeks recovery for use of the patents after such rescission, and therefore for a period not covered in any way by the old license agreements.

Similarly, we have shown that the court has misunderstood and misconstrued the ruling of the Supreme Court in the *Hartford-Empire* case in its conclusion that that decision was a specific precedent for holding that there could be no recovery for infringement of U. S. Gypsum's patents *pendente lite* (*supra,* Point IV). Since the determination that U. S. Gypsum should be enjoined from prosecuting the infringement counts in its pending suits is founded upon this erroneous conception, it is likewise unsupportable, and in so far as the findings, conclusions and decree entered herein on December 9, 1954, are based upon such an erroneous foundation, they should be set aside. No sound reason can be assigned as to why Hartford-Empire should be permitted to recover over $7,000,000 for the use of its patents and the services rendered in connection therewith *pendente lite,* whereas U. S. Gypsum should be prevented from attempting to recover for a similar use of its patents during the period between the first Supreme Court opinion in *Gypsum* and the entry of the final decree of May 15, 1951.

Not only is the amendment of the final decree of May 15, 1951, by this Court's decree of December 9, 1954, wholly [fol. 1793] untenable because of the unwarranted views of this court with respect to the *quantum meruit* and infringement counts, but it is also clearly erroneous in that the court, in so acting, has expanded the final decree beyond its

basic purposes and has created new rights in the co-conspirator licensees which not only were not contemplated by the final decree, but actually are in conflict with that decree's provisions governing the rights of the parties as to the future use of U. S. Gypsum's patents.

Implicit in the compulsory licensing provisions of the 1951 final decree was the assumption that U. S. Gypsum was free to sue for the use of its patents, for such compulsory licenses were merely immunity from such suits. National and Certain-teed, in reliance on the decree, obtained licenses to use U. S. Gypsum's patents subsequent to May 15, 1951, and paid royalty therefor. Newark and Ebsary refused to apply for a license under the decree but continued to use U. S. Gypsum's patents. By extending the decree of December 9, 1954, to enjoin the prosecution of the Newark and Ebsary suits for use of the patents subsequent to May 15, 1951 (contrary to the views expressed in its opinion, p. 22), the court has in effect ruled that Newark and Ebsary could use U. S. Gypsum's patents with immunity, thus making the compulsory licensing provisions of the final decree meaningless. Such an inconsistency between the final decree and this court's decree of December 9, 1954, is wholly indefensible and is in derogation of the rights given to U. S. Gypsum by the final decree with respect to continued use of its patents. This is manifest error, which in this instance is accentuated by its having been done in disregard of the Government's position, as hereinbefore more fully discussed (*supra,* Point III).

[fol. 1794]

VI

The Court Erred in Ruling That It Has Jurisdiction and Should Exercise It to Grant the Relief Sought By the Defendant Petitioners.

Another basic error in the opinion of July 6, 1954 (pp. 7, 11, 25) and in the conclusions of law (1-6 incl.) is the determination that this court has and should exercise jurisdiction to restrain prosecution of the pending suits in the various district courts and to adjudicate a private controversy between the defendants as to the right of U. S. Gypsum to recover under *quantum meruit* or infringement,

regarding which the Government has clearly stated that it "takes no position."

Civil Action 8017 is an injunction suit filed by the United States on behalf of the general public, by the Attorney General who is primarily charged by Congress with the duty of protecting the public interest under the Anti-Trust laws (*United States* v. *Borden Company,* 347 U. S. 514, 518 (1954)). He is the sole spokesman for the public interest. (*Buckeye Co.* v. *Hocking Valley Co.,* 269 U. S. 42 (1925)). This principle cannot be explained away simply on the ground that the petitioner seeking to vindicate private "rights" is a party defendant to the public case (cf. Op. p. 6). Entirely different policy considerations govern such a Government suit from a private suit. (*United States* v. *Borden Co., supra; United States* v. *Bendix Home Appliances,* 10 F. R. D. 73, 77 (S. D. N. Y. 1949)).

The prime object of civil decrees obtained by the Government, such as the final decree of May 15, 1951, is, as we have shown (Point III(a), *supra*), the continuing protection of the public against a recurrence of anti-trust violations. This public interest in public suits clearly differentiates the private interests in private decrees. Pri-[fol. 1795] vate litigants, whether or not parties to the Government decree, can no more use it to their own selfish ends, than can a private decree preclude injunctive relief to the Government in a public action. (*United States* v. *Borden Company, supra,* pp. 518-19.) It is for this reason that federal courts have been ever alert to prevent decrees in public suits from being encumbered with extraneous issues of a purely private nature. (*Buckeye Co.* v. *Hocking Valley Co. supra; United States* v. *Bendix Home Appliances, supra; United States* v. *Columbia Gas and Electric Corp. supra.*)

Here, in this public action, the final decree admittedly did not either expressly or implicitly cover the character of suits brought by U. S. Gypsum for infringement or for *indebitatus assumpsit* or for *quantum meruit.* It neither allowed nor forbade such (Op. p. 25; C/L 7). Admittedly, also, there were no issues joined as between the defendant co-conspirators on which any adjudication could have been

made. Here, too, the sole public defender has expressly stated that

> "it takes no position as to whether U. S. G.'s alternative claims for recovery on a *quantum meruit* basis or for infringement * * * are barred by this Court's final decree of May 15, 1951, or as to whether this Court should enter an order enjoining U. S. G. from prosecuting such alternative claims." (Govt. Br. p. 3.)

Despite these facts, a majority of this court has amended the decree to preclude prosecution of U. S. Gypsum's suits, on the ground that defendant petitioners, by "fair implication" of the final decree, having obtained rights to free use of U. S. Gypsum's patents. Not only is there basic error in this adjudication in ignoring the Government's position, expanding the decree beyond its basic purpose, and creating new rights in the co-conspirator licensees, as we have shown, but it is manifest error to strain estab- [fol. 1796] lished principles to find jurisdiction to make such an adjudication. Especially is this so where such "rights" cannot be found in the final decree, but only in such post-decree matters as a misconstruction of the legal effect of Count III of the recently filed U. S. Gypsum suits, a supposed continuing unpurged patents misuse of U. S. Gypsum, and a mistaken reading of the *Hartford-Empire* case (C/L 14-16). *Terminal Railroad Assn.* v. *United States*, 266 U. S. 17 (cited Op. p. 7) not only does not support such a conclusion but, on the contrary, requires an opposite conclusion, as it expressly recognized and held that

> "a decree will not be expanded by implication or intendment beyond the meaning of its terms when read in the light of the issues and the purpose for which the suit was brought; * * *" (266 U. S. 17, 29).

In the *Columbia Gas & Electric Co.* case (cited Op. pp. 7-9), the rights of the non-party referred to were not conjectural or fashioned from post-decree occurrences, but were expressly conferred by the consent decree, with the consent and insistence of the sole public defender.

This assumption of jurisdiction is clearly neither under

Article X of the final decree "to construe carry out, or enforce" it, nor within the inherent power of this court to enforce its decree. The Government's position has removed all public interest from the matter of Counts III through VI of the pending suits. Judge Cole is correct in stating that the main litigation brought by the Government in the public interest "will not permit the main action to be encumbered with extraneous issues of a private nature" (Dissenting Opinion p. 2). Such an effort to expand the basic purpose of the final decree to dispose of new private issues between the defendants at this late date is clearly beyond the jurisdiction of this court.

[fol. 1797] VII

The Court Erred in Entering Findings of Fact Which Are Contrary to the Evidence and to Law and Conclusions of Law Which Are Contrary to Law.

In support of its motion for new trial, U. S. Gypsum assigned errors in the entering of Findings of Fact 5, 6, 7, 10, 20, 21, 22, 22A through 22E, 25, 28, 31, 32 and 33. Most of these erroneous findings have been discussed in the points hereinbefore considered.* The remaining findings to which error is assigned involve in varying degrees findings which are inaccurate, misleading or contrary to the evidence. Thus finding 5 erroneously characterizes the *prima facie* determinations of the Supreme Court and inaccurately states the terms of the old license agreements; finding 10 misstates the facts as to the proceedings on the motion for summary judgment; findings 20 and 21 are inaccurate and misleading in their purported summation of the final decree; finding 25 is not supported by the evidence and is contrary to the fact; finding 31 inaccurately describes the recovery sought in Counts I and II of the pending suits; and findings 32 and 33 are unsupported by the evidence and contrary to the fact, particularly with respect to Patent No. 2,044,401. (For further detail as to the errors, reference is made to

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* Point II, F/F 22, 22A through 22E; Point F/F 6 and 7; Point IV, F/F 6 and 7; Point V, F/F 22, 28.

U. S. Gypsum's Objections and Suggestions filed herein September 17, 1954, pp. 30-33, 35-37, 47-49, 64, 68-71).

In support of its motion for new trial U. S. Gypsum also assigned errors in the entering of Conclusions of Law 1 through 6, 9, and 11 through 16, which have been fully discussed in the points hereinbefore considered.*

[fol. 1798] It is respectfully submitted that the findings and conclusions objected to are indefensible and that they should be set aside by the court pursuant to U. S. Gypsum's motion for new trial.

VIII

U. S. Gypsum's Motion for New Trial Is the Appropriate Remedy to Obtain a Reconsideration of the Findings, Conclusions and Decree Entered Herein on December 9, 1954, and a Correction of the Errors Inherent in Them.

Rule 59(a) of the Federal Rules of Civil Procedure provides:

> "A new trial may be granted to all or any of the parties and on all or part of the issues * * * (2) in an action tried without a jury, for any of the reasons for which rehearings have heretofore been granted in suits in equity in the courts of the United States. On a motion for a new trial in an action tried without a jury, the court may open the judgment, if one has been entered, take additional testimony, amend findings of fact and conclusions of law or make new findings and conclusions, and direct the entry of a new judgment."

Rule 59 represents an amalgamation of the old motion for new trial at law and the petition for rehearing under equity practice. Alleged manifest errors of law and of fact have long been common grounds in equity for seeking a rehearing or reconsideration by the court (Moore's Fed-

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* Point I, C/L 11 though 15; Point II, C/L 11, 12, 13 and 15; Point III, C/L 1 through 6, and 9; Point IV, C/L 16; Point V, C/L 11 through 16; Point VI, C/L 1 through 7, 14 through 16.

eral Practice, Pars. 59.02; 59.07, including cases cited in footnotes 5, 10, 11, 12).

A motion seeking reconsideration of a court's action is appropriate under Rule 59(a) although there has not been any trial at which evidence has been introduced (Moore's Federal Practice, Par. 59.03 (fn. 8, 9) and Par. 59.07 (fn. [fol. 1799] 4); *Safeway Stores* v. *Coe,* 136 F. 2d 771 (App. D. C. 1943); *Jusino* v. *Morales & Tio,* 139 F. 2d 946, 948 (C. A. 1st, 1944); *Principale* v. *Associated Gas & Electric Co.,* 192 F. 2d 1016 (C. A. 2d 1951), Cert. Den. 343 U. S. 942).

The decree herein was entered December 9, 1954. The motion for new trial was filed December 20, 1954, within the time allowed by the rules (Fed. Rules of Civil Procedure, Rules 6(a) and 59(b)). It is the appropriate remedy, duly and timely filed, to seek a reconsideration of the findings, conclusions and decree entered herein on December 9, 1954.

Conclusion

In view of the manifest errors of law and of fact hereinbefore set forth and considered, it is urged that U. S. Gypsum's motion for new trial be granted and the findings of fact, conclusions of law and decree entered herein on December 9, 1954, be set aside and that the matter be set down for such further hearing as the court may deem necessary or appropriate for the taking of evidence, the making of new findings and conclusions and the entering of a new judgment.

Respectfully submitted,

Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant United States Gypsum Company. Cravath, Swaine & Moore, 15 Broad Street, New York 5, New York, MacLeish, Spray, Price & Underwood, 134 South La Salle Street, Chicago 3, Illinois, Macleay & Lynch, 1625 K Street N. W., Washington 6, D. C.

[fol. 1800] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

STATEMENT OF NATIONAL GYPSUM COMPANY AND CERTAIN-TEED PRODUCTS CORPORATION IN OPPOSITION TO UNITED STATES GYPSUM COMPANY'S MOTION FOR NEW TRIAL—Filed February 28, 1955

This statement is submitted on behalf of defendant petitioners National Gypsum Company and Certain-teed Products Corporation in opposition to the motion for a new trial, filed December 20, 1954, by United States Gypsum Company (hereinafter referred to as "USG"), made pursuant to Rule 59(a) of the Federal Rules of Civil Procedure.

As USG states in its Points and Authorities* in support of its motion, its present motion is more specifically [fol. 1801] a motion for reconsideration or rehearing, which motion is appropriate under Rule 59(a). (P & A p. 33.)

This Court has stated with respect to such motions in *Seymour* v. *Potts & Callahan Contracting Co.*, 2 F. R. D. 38 (D. C. D. C. 1941), rev'd on other grounds *sub nom. Seymour* v. *Hawkins*, 133 F. 2d 15 (C. A. D. C. 1942):

> ". . . Although motions for rehearing ought not be discountenanced, there has been a growing tendency here to treat them as an ordinary step in the course of a case; and this tendency, I think, should be discouraged. Too often we see motions to rehear of a purely repetitious nature. Again we find them predicated upon factual or legal grounds that could and should have been presented at the original hearing.

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* USG's Points and Authorities in support of its motion, filed January 7, 1955, will be referred to as "P & A p." followed by a page number.

> In both instances they necessarily result in delay and wasted effort by court and counsel." (2 F. R. D. p. 40)*

USG's motion for a new trial asserts that this Court erred in 13 of its 37 findings of fact and 13 of its 16 conclusions of law. USG's motion contests every major ruling of this Court, and USG's Points and Authorities in sup- [fol. 1802] port of its motion repeats substantially every argument it has already made on the issues raised by defendants' petitions.

The Court's observations in the *Seymour* case, *supra*, are, therefore, particularly pertinent. We believe it would cast an undue burden upon the Court if we again answered each of the arguments made by USG in its brief and oral argument and repeated by USG in its Points and Authorities.

This statement, therefore, will be limited, with one exception, to answering only that part of USG's Points and Authorities which presents contentions not heretofore made in one form or another to this Court. The only such contentions, we find, are those which attack this

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* Compare the statement of Judge Lindley on a petition for rehearing with respect to the decree entered in *Stewart-Warner Corp.* v. *Levally*, 16 F. Supp. 778 (N. D. Ill. 1936), decree aff'd *sub nom. Lincoln Engineering Co.* v. *Stewart-Warner Corp.*, 91 F. 2d 757 (C. A. 7, 1937), decree rev'd on other grounsd 303 U. S. 545 (1938);

> "Defendant's first premise is the alleged discovery of additional material evidence; its second, alleged error by the court in its findings, conclusions and decree. Defendant's action in the latter respect is equivalent merely to an attempt ot reargue issues previously determined, after a voluminous record had been made and full and complete briefs and arguments submitted. Such practice is not to be encouraged, for, if a court has once rendered its best efforts to arrive at proper solution of questions submitted, upon complete presentation, it should not be subjected to a demand to consider the same again. Otherwise, litigation would never end; . . ." (p. 779).

Court's ruling that, as a matter of law, USG has continued to misuse its patents up to this time. (P & A Point I pp. 2-4.)

The exception to this limitation involves the application to this proceeding of the *Hartford-Empire* opinions (323 U. S. 386, 324 U. S. 570). Briefs and argument dealt with so many aspects of this case, that they may have confused as much as enlightened the meaning of *Hartford-Empire*. We are mindful that additional discussion of *Hartford-Empire* may be burdensome to the Court, but we believe it may be helpful to this Court to clarify further the application of that case to this proceeding, if this Court should so desire.

Our statement, therefore, will relate only to the rulings of this Court that (1) USG's patent misuse continued to date, and (2) the *Hartford-Empire* case bars USG's infringement claims.*

[fol. 1803] At the outset the relationship of both of these rulings to the Court's decision should be clear. The Court has enjoined USG from enforcing *all* of its claims against these petitioners upon several separate grounds. The Court enjoined USG from enforcing any of its claims for the period prior to May 15, 1951, because it was clearly shown by the record herein that USG did not purge itself of its patent misuse prior to that time. (CL 11, 12)* The Court also found, however, as an additional ground for barring

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* The other major contentions of USG, which cover ground already much fought over, and to which we make no answer in this statement for that reason are: that the Court cannot find, as a matter of law, that USG did not purge itself prior to May 15, 1951 (P & A II); that the relief sought by defendant petitioners goes beyond the basic purpose of the Final Decree of May 15, 1951 (P & A III); that the Court has no jurisdiction (P & A VI). For the same reason—that they contain arguments already asserted and considered by this Court—no answer is made to the material on pp. 5-9 of Point I, and to Points IV, V and VII of USG's Points and Authorities, except insofar as USG attacks this Court's reliance on *Hartford-Empire*.

* Conclusions of Law will be referred to herein as "CL".

all USG's claims for the period prior to May 15, 1951, that USG's suits on its illegal license agreements constituted continuing misuse to date; in challenging this Court's ruling, therefore, USG assails only an alternative ground relied upon by the Court to dismiss *all* USG's claims. (CL 13)

The *Hartford-Empire* case is relied upon by the Court only as an *additional* ground for dismissal of USG's *infringement* claims for the period up to May 15, 1951.

These petitioners believe that both of these rulings are sound as we shall hereinafter show.

[fol. 1804] I

The Court Correctly Ruled That USG Continued to Misuse Its Patents Until Entry of the Court's Decree of December 9, 1954.

USG contends that:

> "... this court has taken the erroneous position that because U. S. Gypsum has brought suits in 1953 to recover money for the actual use of its patents, for which compensation has not heretofore been paid, such a money action in some way constitutes a continued misuse of its patents. This determination apparently rests upon the facts, *first*, that these suits included two counts (*i. e.* Counts I and II) seeking to recover royalty under the illegal license agreements, and *secondly*, that the other alternate and inconsistent counts in these suits sought compensation in a like amount as that claimed under Counts I and II. ..." (P & A p. 3)

The foregoing statement of the Court's position is misleading. The Court did not hold that merely bringing an action to recover money for the use of patents constituted misuse. The Court has clearly stated the basis for its holding of continued misuse in Conclusion 13:

> "The course of conduct of USG, as clearly shown by the proceedings of record in the Anti-trust case and in the suits by USG, must be construed as meaning that USG has continued after May 15, 1951 to misuse its patents by seeking recovery, directly and indirectly, on the illegal license agreements up to this time. The at-

tempt by USG to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents; such misuse yet continues; and to allow prosecution of these suits, would weaken the effectiveness of the Final Decree."

USG states that it knows of no case "wherein it has been held that the mere bringing of a suit to recover money [fol. 1805] alleged to be due under an unlawful license agreement, and in the alternative compensation for use of patents, constitutes without more misuse of a patent as a matter of law". (P & A p. 3.) Certainly it would be difficult to find such a case, for the doggedness of USG in seeking to enforce its license agreements even after they had been adjudicated "illegal, null and void" in a Final Decree is unique.

Park-In Theatres v. *Paramount-Richards Theatres,* 90 F. Supp. 730 (D. C. Del. 1950), aff'd 185 F. 2d 407 (C. A. 3, 1950), cert. denied 341 U. S. 950, is cited by USG as authority contrary to the Court's ruling on continued misuse (P & A p. 4). That case is not in point. Plaintiff in *Park-In Theatres* initially alleged two causes of action—one for an accounting for royalties under a patent license agreement and a second or alternative cause of action for patent infringement. Certain defendants moved to dismiss on the ground that the license agreement contained provisions in violation of public policy and was therefore unenforcible, and that as a further consequence the patent infringement action could not be maintained. Disposition of the motion to dismiss was deferred by the court for further facts. 81 F. Supp. 466. A motion for summary judgment, based on the same contentions, was then filed. Plaintiff then filed an amended complaint and defendants renewed their motions for summary judgment and to dismiss with reference to the amended complaint. Based on the facts and affidavits before it, the district court held that the plaintiff's license agreement tended to restrain competition and was therefore violative of public policy. Accordingly, it granted the defendants' motion for summary judgment as to the first cause of action.

As to the cause of action for patent infringement (which appeared as the fourth cause of action in the amended

complaint), the court held that the record before it created an issue of fact as to whether plaintiff had purged its misuse of its patent, and the court denied summary judgment on this cause of action.

[fol. 1806] In the *Park-In Theatres* case there was no prior adjudication that the license agreement in question was "illegal, null and void". In fact, in a prior action brought by Park-In Theatres against Loew's Drive-In Theatres, the very contract terms in question in the *Park-In Theatres* case were held lawful and not violative of the anti-trust laws. 70 F. Supp. 880, 887 (D. C. R. I. 1947).* Hence, in the *Park-In Theatres* case, the action was brought on a license agreement the terms of which had previously been adjudicated legal. Therefore, the mere bringing of a suit by Park-In Theatres could not be misuse as a matter of law. If, however, Park-In Theatres had subsequent to this decision sought in some manner to enforce its license agreements declared unenforcible in this decision, it would be in a position somewhat analogous to USG and upon those facts might very well be considered to have continued its misuse by institution of suit on the illegal patent license agreement.**

USG next contends that the Court's continued misuse ruling is in conflict with the recent patent law codification. USG's entire argument on this point is quoted:

> ". . . The continued misuse ruling conflicts with the proposition that a suit to enforce a patent right is not *per se* against public policy, which is now conclusively established by the new codification of the patent laws providing (Title 35 U. S. Code, Sec. 271(d)):
>
> 'No patent owner otherwise entitled to relief for infringement * * * shall be denied relief or deemed

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* This decision was reversed on other grounds subsequent to the institution of the Paramount-Richards action. 174 F. 2d 547 (C. A. 1, 1949), cert. denied 338 U. S. 822.

** However, even in a third action, the fact that Park-In Theatres had received conflicting decisions in two separate circuits would militate against a finding of misuse by mere bringing of a new action.

guilty of misuse or illegal extension of the patent right by reason of his having done one or more [fol. 1807] of the following: * * * (3) sought to enforce his patent rights against infringement or contributory infringement.'

A patentee's right to grant a license (immunity from suit for infringement) and receive compensation therefor is clearly an enforcible right within the meaning of the new codification. Since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (such as Counts I and II) solely for the recovery of money does not in itself constitute misuse." (P & A p. 4)

From the face of the statute it appears that it merely lays down the principle that a patentee, *otherwise entitled to relief,* is not guilty of misuse by merely enforcing his patent right against *infringement or contributory infringement.* USG did not, in the instant proceeding, merely seek to enforce patents against infringement or contributory infringement. Its infringement claim constituted only one of five or six counts. The Court's continued misuse ruling rests primarily upon the fact that USG added to its infringement claim claims under the illegal license agreements (CL 13).

It also appears plainly from the face of the statute that USG is in error in claiming that a suit on a license agreement is an enforcement of a patent right within the scope of the statute. The statute is limited solely to enforcing "rights against infringement". A suit on a license agreement is on a contract; a suit for infringement is for a tort. The distinction is basic in the whole patent field.

Moreover, when we examine the legislative history of Section 271(d), it is apparent that USG's construction of the statute has stretched and twisted its meaning. Section 271 of the Patent Act of 1952 developed as a result of the *Mercoid* cases [*Mercoid Corp.* v. *Mid-Continent Investment Co.,* 320 U. S. 661 (1944) and *Mercoid Corp.* v. *Minneapolis Honeywell Regulator Co.,* 320 U. S. 680 (1944)] In the

[fol. 1808] *Mercoid* cases the Supreme Court held that a patentee who was using his patent as an effective means of restraining competition in an unpatented article was guilty of misuse, and could not succeed in a contributory infringement action against one deliberately selling the unpatented article to an infringer, even though the unpatented device was itself an integral part of the patented system. Language in the Supreme Court's opinions that a patentee cannot use the patent to acquire a monopoly which is not plainly within the terms of the patent grant, raised the question whether a patentee, otherwise free of any misuse of his patent, could be said to be attempting to extend his patent grant and thereby misusing it by merely bringing a suit for contributory infringement. The *Mercoid* cases were interpreted by some members of the patent bar to forbid any contributory infringement suits [see, e.g., Giles S. Rich "Infringement Under Section 271 of the Patent Act of 1952", 35 J. P. O. S. 476-500 (July 1953), 21 Geo. Wash. L. Rev. 521-46 (April 1953)], and at least one decision directly so held. *Stroco Products* v. *Mullenbach*, 67 U. S. P. Q. 168 (S. D. Cal. 1944). See also *Master Metal Strip Service* v. *Protex Weatherstrip Mfg. Co.*, 169 F. 2d 700 (C. A. 7, 1948), cert. denied 335 U. S. 898.

In the *Stroco Products* case a contributory infringement action was dismissed on motion for summary judgment on the authority of the *Mercoid* cases, despite the fact that there was no evidence before the court that the plaintiff had by license or otherwise attempted to secure a monopoly on the unpatented portions of the complete combination covered by its patent. The district court held that the mere bringing of suit was misuse of plaintiff's patent.*

Because of the doubt and confusion as to the state of the law caused by the *Mercoid* cases and conflicting de-
[fol. 1809] cisions resulting therefrom, the New York Patent Law Association sponsored various bills which resulted in

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* It should be noted that this case is a direct holding that the mere bringing of suit can be misuse. Legislation, i.e., Section 271 (d) overruled this case, but only in its limited field. Cf. *Kobe* v. *Dempsey Pump Co.*, 198 F. 2d 416, 424-25 (C. A. 10, 1952), cert. denied 344 U. S. 837.

the enactment of Section 271. See Hearings Before Committee on the Judiciary on H. R. 5988, 80th Cong. 2d Sess. (1948); Hearings Before Committee on the Judiciary on H. R. 3866, 81st Cong. 1st Sess. (1949); Hearings Before Committee on Judiciary on H. R. 3760, 82nd Cong. 1st Sess. (1951).

The resulting statute, Section 271, was designed to, and did re-assert conclusively the right to sue for contributory infringement. Subsection (d) is ancillary to subsections (b) and (c) which define and limit contributory infringement of a patent. Reviser's Note to Section 271. Subsection (d)'s purpose, in the words of the Judiciary Committee Report, is to provide "that one who merely does what he is authorized to do by statute is not guilty of misuse of the patent". Sen. Rep. No. 1979, 82nd Cong. 2d Sess. p. 8 (1952); H. R. Rep. No. 1923, 82nd Cong. 2d Sess. p. 9 (1952).*

It can be seen from the above history of Section 271, both case and legislative, that it is designed to clarify the law only in the limited area of contributory infringement, and authorizes action for contributory infringement where the patentee is not otherwise misusing his patent.

[fol. 1810] We submit that, for the foregoing reasons, USG cannot claim that its suits on license agreements which have been adjudicated illegal are proper because of any argument based on Section 271(d).

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* As Mr. Rich, who spoke for the Patent Law Association in sponsoring the bills before the Judiciary Committee, has elsewhere stated:

> "Clause (3) says 'sought to *enforce* his patent rights against infringement or contributory infringement', having reference to suits under paragraph (a), (b) or (c), and is directed to the situation in cases which have arisen in which the courts have said that the mere bringing of a suit against a contributory infringer is an attempt to extend the monopoly and hence a misuse of the patent because the objective is to monopolize the sale of 'unpatented' wares," (35 J. P. O. S. at p. 494.)

For a discussion of the development of Section 271 see 66 Harvard Law Rev. 909-18 (1953).

II

This Court Correctly Concluded That the Teaching of Hartford-Empire Barred USG's Infringement Claims

This Court's Conclusion of Law with respect to *Hartford-Empire* reads:

> "Both because of the practical and legal situation in this case, and, also, the teaching in the *Hartford-Empire* case, the Final Decree should be modified to cover prohibition from prosecuting the USG suits insofar as they are based on patent infringement during the period covered by those suits." (CL 16) See also the Court's opinion of July 6, 1954, pp. 30-33.

This Court's Conclusion of Law and its opinion with respect to *Hartford-Empire* can be read fairly only in the context of the various contentions of the parties concerning that case.

In our initial briefs, National Gypsum Company and Certain-teed Products Corporation asserted that *Hartford-Empire* should bar all USG claims asserted against them for the period prior to May 15, 1951 because:

(1) The factual and legal situations were analogous—i.e., there were broad, industry-wise restraints and monopolization accomplished through patent misuse.

(2) The Supreme Court—faced for the first time with the problem of the appropriate remedies for such violations—prescribed, in 323 U. S., the first *Hartford* opinion, with regard to the misused patents, compulsory li- [fol. 1811] censing at reasonable royalties for the post-decree period, and an injunction against infringement claims for the pre-decree period. In the *National Lead* case, also factually and legally analogous to *Hartford-Empire* and *Gypsum*, the same remedies were adopted. (See National Brief, pp. 45-46.)

USG in its answering brief sought to meet this argument on the first ground only—i.e., that *Gypsum* was unlike *Hartford-Empire* because in *Gypsum* the restraint was a narrow one (USG Brief pp. 101-13). But USG has never denied that in *Hartford-Empire* (323 U. S.) the broad remedy of forbidding pre-decree infringement claims was

granted along with the post-decree remedy of compulsory licensing. This is the basic teaching of the *Hartford-Empire* case. USG, however, intermixed this simple and controlling aspect of the *Hartford-Empire* case with the special problem in that case relating to the disposition of ear-marked royalties, i.e., those paid by Hartford-Empire's licensees for the period between the lower court's initial and final decrees.

It should be clear at the outset that the ear-marked royalty problem was a special one peculiar to that case. The lower court in *Hartford-Empire* had appointed a receiver at the time of entry of its decree, in order, *inter alia,* "to prevent any further abuse of the patent privileges of Hartford" (46 F. Supp. 541, 620). The licensees had paid royalties to Hartford's receiver during the period between the initial and final decrees. Hartford's licensees, therefore, were not infringers during this period. The Supreme Court's disposition of this unique problem in its *second opinion* (324 U. S.), therefore, does not in any way limit its broad holding in its first opinion, followed in *National Lead,* that all defendants (including Hartford) are to be enjoined from bringing infringement claims under misused patents for the period prior to entry of the final decree (our period) and to license them at reasonable royalty rates thereafter.

[fol. 1812] This broad holding, derived from the Supreme Court's first *Hartford* opinion, was undoubtedly in this Court's mind in finding that the teaching of the *Hartford* case was that infringement claims for the period prior to May 15, 1951, were to be barred. *Hartford,* therefore, fully supports this Court's action in enjoining USG from enforcing its infringement counts.

USG asserts (P & A pp. 22-25) that this Court erroneously concluded from the language of the Supreme Court in the *second Hartford-Empire* opinion (324 U. S. 570, 572), which this Court quotes at p. 31 of its Opinion, that the Supreme Court distinguished between a *quantum meruit* and an infringement claim under patents. USG further asserts that the Supreme Court, in the language quoted by this Court, actually was distinguishing between a claim by Hartford against its licensees for *quantum*

meruit for the use of its *machines* and *services,* and a claim for compensation for the use of its patents.

Assuming that USG's construction of the Supreme Court's language in the second *Hartford* case is correct, it is a *non sequitur* to contend, as does USG, that *Hartford* furnishes no basis for the conclusion that the infringement counts should be enjoined. This Court's view that the teaching of *Hartford* bars USG's infringement claims is sound for the reasons stated above.

In our opinion, the Supreme Court in the second *Hartford* opinion did not intend to draw a distinction between infringement and *quantum meruit* claims under patents; that the *quantum meruit* claim allowed was only as to rental and service charges for use of Hartford's machines, and not its patents; and that the second *Hartford* opinion cannot be construed to bar only USG's infringement claims, and to permit USG to go forward on its *quantum meruit* claim.

We think that our construction of the second *Hartford* opinion is supported by the well established principle that [fol. 1813] a *quantum meruit* claim will not lie for the use of a patent. This view was expressed briefly by National in its Brief, footnote p. 34; and in the event this Court desires to read a fuller expression of our view, it is fully developed in Appendix A attached hereto.

In summary, therefore, this Court correctly held that *Hartford-Empire* supported its order to USG to dismiss its infringement claims against these petitioners.

Conclusion

For the foregoing reasons, USG's motion for a new trial should be denied.

Respectfully submitted, Finck & Huber, Rosenman Goldmark Colin & Kaye, Seymour Krieger, Clausen, Hirsh & Miller, Purcell and Nelson, Attorneys for National Gypsum Company and Certain-teed Products Corporation, Defendant-Petitioners.

February 28, 1955.

A *Quantum Meruit* Claim Will Not Lie for Use of a Patent

An action for *quantum meruit* is a quasi-contractual action based on an obligation imposed by law on a defendant irrespective of, and sometimes in violation of, his intention.* A restriction upon the power of the law to create such obligations is that they must be of a kind which would have been appropriately enforced under common law procedure by a contractual action. 1 Williston on Contracts § 3.

As pointed out in the National Brief, at p. 34, and in the Certain-teed Brief at pp. 33 et seq., no recovery in *quantum meruit* can be had by USG on its license agreements since they are contracts which are illegal, and have been so adjudicated.

The only other possible basis for a *quantum meruit* action is if such an action will lie for patent infringement. Such an action clearly is not permissible.

The remedies available for patent infringement are wholly statutory and have no common law basis. *Gayler* v. *Wilder,* 51 U. S. 476, 493 (1850); *Bellavance* v. *Plastic-Craft Novelty Co.,* 30 F. Supp. 37 (D. C. Mass. 1939). The patent owner has the election to sue at law for damages for infringement, or seek an injunction, accounting and damages in equity. 35 U. S. C. §§281, 283, 284; *Ryan Distributing Corp.* v. *Caley,* 51 F. Supp. 377 (E. D. Pa. 1943), aff'd 147 F. 2d 138 (C. A. 3, 1945), cert. denied 325 U. S. 859.

Infringement of a patent is a tort. *Carbice Corp.* v. *American Patents Corp.,* 283 U. S. 27, 33 (1931); *Stern* v. [fol. 1815] *Goddard,* 22 Fed. Cas. No. 13,353 (C. C. Cal. 1856); 69 C. J. S. p. 890. Accordingly, the law will not resort to the fiction of a contract on the part of the infringer to sustain a quasi-contractual action. *In re Paramount*

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* This must be distinguished from a contract "implied-in-fact" which is an obligation arising from mutual agreement and intent to promise but where the agreement and promise have not been formalized. 1 Williston on Contracts § 3. There are no contracts implied-in-fact in this case. National Brief, pp. 35-37.

Publix Corp., 8 F. Supp. 644 (S. D. N. Y. 1934); see 1 Williston on Contracts, § 3.

It has been held in several cases that there is no quasi-contractual action for patent infringement. *In re Paramount Publix Corp., supra; In re Boston & Fairhaven Iron Works*, 23 Fed. 880 (C. C. D. Mass. 1885); *Schillinger* v. *United States*, 155 U. S. 163 (1894); *United States* v. *Palmer*, 128 U. S. 262 (1888); cf. *DeWitt* v. *Elmira Nobles Mfg. Co.*, 66 N. Y. 459 (1876); *Cohan* v. *Robbins Music Corp.*, 244 App. Div. 697 (1st Dept. 1935).* We have been unable to find any cases holding otherwise.**

The foregoing shows that in the posture of this case, USG cannot make any *quantum meruit* claim for use of its patents. It furnishes an additional ground, apart from the antitrust considerations set forth in Part IV of this Court's opinion, for barring USG's *quantum meruit* claims.

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* The distinction should be noted in these cases between the denial of *quantum meruit* in a quasi-contractual action for patent infringement and the possible separate cause of action for *quantum meruit* under an express or implied-in-fact contract. The Supreme Court opinion in *E. W. Bliss Co.* v. *United States*, 253 U. S. 187 (1920) illustrates this distinction.

** The case of *Schiff* v. *Hamond Clock Co.*, 69 F. 2d 742 (C. A. 7, 1934), decided on the ground that plaintiff was estopped to deny the efficacy of a release given to a bankrupt party in the prior action, has dictum to the effect that plaintiff could have had a provable quasi-contractual claim for patent infringement against such bankrupt party in the bankruptcy proceedings "on the theory that an infringer may be held as a trustee *ex maleficio* for profits by him obtained through his wrongful use of another's patent" (p. 746). This dictum is clearly wrong since the trustee *ex maleficio* theory had been expressly ruled out by the Supreme Court as early as 1881 in the case of *Root* v. *Railway Co.*, 105 U. S. 189. The *Schiff* case was settled pending appeal and accordingly the decree was vacated as moot. 293 U. S. 529.

[fol. 1816] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title Omitted]

REPLY OF PETITIONERS NEWARK PLASTER COMPANY AND EBSARY GYPSUM COMPANY, INC. IN OPPOSITION TO THE MOTION OF UNITED STATES GYPSUM COMPANY FOR A NEW TRIAL—Filed February 18, 1955.

United States Gypsum Company (hereinafter called "USG") has filed a Memorandum and Points of Authorities in support of its motion for a new trial herein.

This Reply thereto is submitted on behalf of petitioners Newark Plaster Company and Ebsary Gypsum Company, Inc. (hereinafter called "Newark" and "Ebsary", respectively).

[fol. 1817] Petitioners National Gypsum Company and Certain-Teed Products Corporation (hereinafter called "National" and "Certain-Teed," respectively) are submitting a Statement in opposition to the said motion of USG.

Petitioners Newark and Ebsary adopt and join in the Statement of petitioners National and Certain-Teed, but submit this Reply in order to supplement the said Statement.

As this Court found in its Finding of Fact 23, USG has instituted actions against all four petitioners herein, which are similar except that they differ with respect to the period of time for which the actions have been brought. All four actions cover periods beginning at approximately the same time in 1948. The periods in the actions against National and Certain-Teed end May 15, 1951, whereas the periods in the actions against Newark and Ebsary extend beyond May 15, 1951 to the filing in 1953 of the complaints in the actions against them.

Petitioners National and Certain-Teed are not involved in the periods beyond May 15, 1951 and have, in discussing in their Statement the barring by this Court of the actions against them, referring to the periods ending May 15, 1951 for which the actions against them were brought.

What petitioners National and Certain-Teed have said in their Statement about the periods ending May 15, 1951 is equally applicable to the additional periods ending in 1953 involved in the actions against petitioners Newark and Ebsary.

Both the Opinion and Conclusions of Law of the Court show that the Court barred USG from enforcing all the counts in each of the actions against the petitioners herein without limitation as to any period of time (Opinion, p. 38; Conclusions of Law 12 and 16).

[fol. 1818] Conclusion

For the foregoing reasons USG's motion for a new trial should be denied.

Respectfully submitted, DeWitt, Pepper & Howell, Attorneys for Defendant-Petitioner, Newark Plaster Company, 120 Broadway, New York 5, New York. Joseph S. Rippey, Attorney for Defendant-Petitioner, Ebsary Gypsum Company, Inc., 612 Powers Building, Rochester, New York.

[fol. 1819] In the United States District Court for the District of Columbia

[Title Omitted]

Reply Brief of United States Gypsum Company to Petitioners' Statement in Opposition to its Motion for New Trial—Filed March 10, 1955.

Petitioners' suggestion (pp. 1-2) that USG's motion is just a motion for reconsideration and rehearing, to be discouraged by the court, merely sets up a straw man. The fact is that USG has moved for a new trial, within the purpose and intent of the Federal Rules of Civil Procedure (Rule 59) and of this court's order of December 9, 1954, which expressly provided that the denial of consideration of certain questions theretofore raised by USG was without prejudice to its presenting, after entry of the decree, such proper matters as it may then deem advisable.

[fol. 1820] USG's motion, and its points and authorities in support thereof, are entitled to, and will undoubtedly be given, full consideration by the court. Petitioners' decision (pp. 3-4) not to answer many of the points raised cannot affect the scope of the matters presented for the court's consideration.

Petitioners contend (p. 4) that USG's claim of error in the court's ruling that there was continued misuse by the bringing of the suits only assails an alternative ground relied on by the court; that the main ground for enjoining claims for the period prior to May 15, 1951 was that it was clearly shown by the record that USG did not purge itself of its patent misuse prior to that time. This begs the question and is no answer to USG's point that such a conclusion could not properly have been reached without the taking of evidence on the purge issues raised by the 1953 petitions and USG's answers thereto (USG's P & A, pp. 9-11), and that therefore the only possible basis for the court's injunction, without the taking of evidence on the factual purge issues so joined by the pleadings, was its erroneous continued-misuse-as-a-matter-of-law-ruling by reason of USG's bringing suits solely for the recovery of money for use of its patents (USG's P & A, pp. 2-9).

(1) The Continued-Misuse-as-Matter-of-Law-Ruling.

Petitioners say (p. 5) that USG's statement in its points and authorities as to the apparent basis of this court's continued-misuse-as-a-matter-of-law-ruling is misleading and they set forth Conclusion 13 as the true basis for the ruling. But a reading of that conclusion, and particularly the statement that "the attempt by USG to enforce the royalty provision of the illegal patent license agreements is clearly misuse of its patents", only serves to demonstrate the accuracy of USG's analysis of the ruling.

Equally ineffectual is petitioners' attempt to distinguish [fol. 1821] the *Park-In Theatres* case (pp. 6-7) by saying that in that case the illegality of the license sued on was determined by the court which had the infringement claim before it, whereas in the instant case the illegality had been determined in a prior suit. The fact remains that in *Park-In Theatres* the court found that the plaintiff was suing for

royalties under an illegal contract and dismissed that count but at the same time refused to dismiss the infringement count in the complaint because of the factual purge issues presented, as petitioners concede (p. 6, last paragraph). The case still stands for the proposition for which USG cited it, *i.e.*, that a suit to recover royalty under an illegal contract does not *per se* constitute a continued misuse of a patent. It is obvious that petitioners' search for authorities has likewise failed to produce any case which supports this court's ruling.*

A substantial part of petitioners' statement (pp. 7-11) is devoted to an attempt to meet USG's argument that the court's continued-misuse-as-a-matter-of-law-ruling is in conflict with recent patent law codification. Although enactment of Section 271 may have been spurred by the *Mercoid* cases and subsequent rulings in contributory negligence cases, the section as passed dealt with both the matter of *infringement* and contributory infringement. Paragraph (a) defines infringement, paragraphs (b) and (c) deal with two kinds of contributory infringement, and paragraph (d) provides that a patent owner shall not be deemed guilty of misuse because of an effort to enforce patent rights against "infringement or contributory infringement." Petitioners' statement (p. 10) that the case [fol. 1822] and legislative history of Section 1 show that it was designed to clarify the law "only in the limited area of contributory negligence" is unwarranted and cannot change the clear language of the statute. Nothing in petitioners'

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* In a footnote (p. 9) petitioners state that the *Stroco Products* case is a direct holding that the mere bringing of a suit can be misuse. That was not a suit for money for use of plaintiff's patent, but rather a suit involving the attempted restriction of sales of a non-patented item, which act the court considered a *per se* attempt to extend the scope of the patent monopoly. Nothing of that character is present here. USG's suits only seek compensation for the actual use of its patents. Moreover, the *Stroco Products* case, as well as all other cases referred to by petitioners, were prior to January 1, 1953, the effective date of the new patent law codification, which includes Section 271.

statement detracts from USG's contention that since it is the declared public policy that the mere bringing of a patent infringement suit is not misuse, then *a fortiori* a suit on a license agreement (which is a grant of immunity from suit for infringement) solely for the recovery of money does not and cannot in itself constitute patent misuse (USG's P & A, p. 4).

(2) The Hartford-Empire Case.

Petitioners' discussion of the *Hartford-Empire* case (pp. 11-14) suggests several pertinent observations.

In the first place, petitioners cannot avoid the point (USG's P & A, pp. 23-24, 27) that for the use of its patents, machines and services by its co-conspirators and others during the litigation period, Hartford-Empire was permitted by order of court to receive in excess of $7,000,000, whereas, in this case the court, apparently intending to rely on *Hartford-Empire* as a precedent, has denied USG the right to recover anything for the actual use of its patents by the co-conspirator defendants during the similar litigation period. Petitioners' statement (p. 12) that the court in *Hartford-Empire* had the special problem of dealing with ear-marked royalties is no answer. If that court had so desired, it could easily have given the licensees a "free ride" by ordering the receiver to return the royalties which each had paid into the fund. It did not choose so to confiscate the patentee's property to the special benefit of its co-conspirators, but rather approved Hartford-Empire's receipt of compensation for use of its patents *pendente lite*.

Secondly, petitioners are unjustified in their reliance (p. 12) on language in the first Supreme Court opinion in [fol. 1823] *Hartford-Empire* that "in view of the nature of the conspiracy" further prosecution of suits for infringement pending at the date that suit was brought (in 1939) should be enjoined. The "nature of the conspiracy" there was to monopolize the glass industry by combining all glass patents and forcing everyone in, if not voluntarily then involuntarily by harassing infringement litigation. Harassing suits of that type are in no way comparable to USG's efforts to collect for the actual use of its patents by its

co-defendants, *pendente lite*. Petitioners' situation is like that of Hartford-Empire's co-defendants who were compelled to pay for the use they made of its patents. Moreover, the *Hartford-Empire* final decree, in enjoining the corporate defendants from seeking recovery for infringement for prior use of the patents, expressly excepted from that injunctive provision any such attempted recovery "against any other corporate defendant" (par. 16(c) of *Hartford Empire* Final Decree of October 31, 1945).

Thirdly, petitioners cannot avoid the fact that although the court in *Hartford-Empire* included an injunction against suits for infringement prior to the decree (except suits "against any other corporate defendant"), the court in this case did not include any such prohibition against USG, either in formulating its first decree entered November 7, 1949, or its second decree entered May 15, 1951.

Fourthly, petitioners' reference to the period in which *Hartford-Empire* collected royalties from its co-defendants as being for the period "between the initial and final decrees" (p. 12), spotlights the manifest error in this case in the failure of the findings, conclusions and decree of December 9, 1954, to give full significance and effect to this court's first decree of November 7, 1949.

Finally, it is of interest to see that the petitioners conclude their argument (p. 13) by agreeing that this court did misconstrue the *Hartford-Empire* case in its ruling [fol. 1824] that the Supreme Court there intended to draw a distinction between suits for infringement and for *quantum meruit* recovery for use of the patents.

(3) Quantum Meruit Recovery (Appendix A).

Petitioners refer (p. 14) to a brief footnote comment regarding *quantum meruit* in National's original brief and attempt to develop the point (although strictly not in answer to USG's Points and Authorities) by an Appendix A entitled "A *Quantum Meruit* Claim Will Not Lie for Use of a Patent." The argument presented is without merit.

It is quite probable that one cannot sue for a *quantum meruit* recovery on account of *infringement* of a patent. It is not surprising that petitioners were unable to find any

cases holding otherwise.* The point, however, is irrelevant. In its pending suits USG does not seek a *quantum meruit* recovery for infringement of its patents, but rather for a use of its patents under circumstances from which the law would imply a promise to pay.** This court has heretofore ruled (Op. of 7/6/54) that the *quantum meruit* counts in the pending suits are "proper and prosecution thereof should not be enjoined" except for the continued misuse doctrine which the court erroneously, we submit, applied. [fol. 1825] Moreover, it does not help petitioners to claim that *quantum meruit* would not lie because there is no common law basis for recovery for patent infringement. A patent is a property right, and at common law a promise to pay was implied by the law where the use of another's property was under circumstances warranting it.

Petitioners Newark and Ebsary have filed a 3-page "Reply" in which they join in the Statement in Opposition

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* There is, of course, authority for the proposition that a patentee may waive the tort and sue in assumpsit for the money (*Henry* v. *A. B. Dick Company*, 224 U. S. 1, 14 (1912); *Walsh* v. *Albert Wahle Co. Inc.*, 25 F. 2d 350 (D. C. E. D. N. Y. 1928); Waiver of Tort and Suit in Assumpsit, Yale Law Jr. Vol. XIX, p. 231). In the *A. B. Dick* case the court said (p. 14): "That the patentee may waive the tort and sue upon the broken contract, or in assumpsit, is elementary, * * *", but pointed out that in such a case a Federal court would have no jurisdiction unless diversity of citizenship existed, saying: "This would be so although the damages for a breach would be measured by the loss resulting from the infringement."

** Of interest is petitioners' statement (p. 15 fn.) that "there are no contracts implied-in-fact in this case." The citation (National's original brief, pp. 35-37) does not support this statement, but on the contrary refers to a discussion attacking Count III of USG's pending suit against National in Iowa, assuming that it be read "as alleging an express or implied in fact agreement." Thus, petitioners finally accept USG's statement repeatedly made that in Count III it sought a *quantum meruit* recovery on a factual situation from which the law would imply a promise to pay.

filed by petitioners National and Certain-teed, and further state that everything there said about the period ending May 15, 1951 "is equally applicable to the additional periods ending in 1953." This obviously does not follow, for the National-Certain-teed statement does not pretend to challenge the purging effect of the final decree of May 15, 1951 or to deal with the period subsequent to that date.

Petitioners' statement does not present any sound reason in opposition to USG's motion for new trial. The motion should be granted for the reasons set forth in USG's supporting Points and Authorities.

Respectfully submitted, Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant United States Gypsum Company.

Cravath, Swaine & Moore, 15 Broad Street, New York 5, New York, MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois, Macleay & Lynch, 1625 K Street, N. W., Washington 6, D. C.

[fol.1826] IN THE DISTRICT COURT OF THE UNITED STATES FOR THE DISTRICT OF COLUMBIA

Holding a Three-Judge Statutory Court

Civil Action No. 8017

UNITED STATES OF AMERICA, Plaintiff

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants.

REPORTER'S TRANSCRIPT OF HEARING OF MOTION FOR NEW TRIAL—APRIL 26, 1955

Court Room No. 16, Sixth Floor
United States Court House
Washington, D. C.

Tuesday, April 26, 1955.

The above-entitled cause came on for oral argument on petition of United States Gypsum Company at 10:00 a.m.,

pursuant to notice, before Honorable Kimbrough Stone, Honorable William P. Cole, Jr., and Honorable Eugene Worley, sitting as the District Court of the United States for the District of Columbia.

Appearances:

Edward Knuff, Esq., Special Assistant to the Attorney General; and

Vincent A. Gorman, Esq., Trial Attorney, on behalf of the United States of America.

Cranston Spray, Esq., Bruce Bromley, Esq., Hugh Lynch, Jr., Esq., and Arthur A. Olson, Esq., on behalf of the United States Gypsum Company.

[fol. 1827] Samuel I. Roseman, Esq., Elmer E. Finck, Esq., and Seymour D. Lewis, Esq., on behalf of National Gypsum Company.

Norman A. Miller, Esq., on behalf of Certain-teed Products Corporation.

Joseph S. Rippey, Esq., on behalf of Ebsary Gypsum Company, Inc.

Benjamin P. DeWitt, Esq., on behalf of Newark Plaster Company.

[fol. 1828] PROCEEDINGS

The Clerk: Case of United States of America versus U. S. Gypsum Company and others, Civil Action Number 8017.

Judge Stone: Are the parties ready to proceed in the presentation of this matter of a new trial?

(All sides are ready.)

Judge Stone: Under the communication to counsel, I think you were informed that the court would allow three hours to a side for presentation. Of course, the United States Gypsum will have half of that time, but should present its full argument in its opening and not use more than half of the allotted time in closing.

Counsel representing the other parties may divide their time as they may arrange between themselves.

As a matter of saving a little time, if you gentlemen will hand to the Clerk and the Reporter at the noon recess your names and the parties whom you represent so that they can be entered in the record.

The program of the court so far as time is concerned will be to proceed until one o'clock, with maybe a short recess of a few minutes, resume at two and do likewise in the afternoon. Are you gentlemen ready on the part of the United States Gypsum Company to present your case?

Mr. Spray: Yes, your Honor.

Judge Stone: You may be heard.

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fol. 1829] ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Cranston Spray, Esq.

Mr. Spray: I am Cranston Spray of MacLeish, Spray, Price and Underwood, Chicago attorneys. I represent the United States Gypsum Company, along with Judge Bromley of the firm of Cravath, Swaine and Moore of New York City. I want to make it clear that if it is satisfactory with the court, in view of the announcement, that it was our plan to take perhaps between two and two and a half hours in our presentation and reserve a half hour or three quarters of an hour for our reply. That would be satisfactory?

Judge Stone: That is satisfactory.

Mr. Spray: At the outset, may it please the court, I should like to take a few moments of the time allotted to us in an effort to present to the court what I believe was the true attitude of this court as presently constituted toward United States Gypsum Company and the other defendants in this case. I think that is appropriate since in large part this court is faced with a very difficult task of trying to draw from the cold, written record proper conclusions as to the intent and purpose of the court in the decision which it made back in 1948, sustaining the Government's motion for summary judgment and as to the scope and the extent that it was intended by them in the various provisions contained first in the decree of November 7, 1949 and then in the decree of this court of May 15, 1951.

As I have studied this court's opinion of July sixth, [fol. 1830] opinion of July sixth, 1954, it seemed quite clear to me we have failed adequately to apprise this court or to

enlighten this court as to the history and background of this litigation so that it could catch the spirit and intent of the judges who participated in these decisions and decrees.

I feel that the responsibility for that failure falls on Judge Bromley and myself. For although certain of the attorneys who participated in the last argument have been identified with this case from the very beginning, none of them with the exception of Mr. Knuff of the Government, who did not participate in this part of the argument which is before the court today, none of them had the same close association with the case as did Judge Bromley and I.

We sat with the—we were involved in the matter from the outset and we sat with the court day after day, week after week, month after month, as the Government evidence was being introduced. We participated in all the post-trial arguments and had the fullest opportunity of sensing the feeling of the court with respect to the defendant companies, including the United States Gypsum Company.

Now, it is crystal clear, I submit, that Judge Stephens and Judge Garrett and Judge Jackson did not consider these defendants as scheming conspirators acting in deliberate violation of the Sherman Act. That fact is amply evidenced by Judge Stephens' opinion, which was rendered as the [fol. 1831] unanimous opinion of this court on June 15, 1946, and by the unanimous action of the court in the findings of fact and conclusions of law and order of dismissal which were entered here on August fifth, 1946. There can be no question but that the court was completely satisfied that U.S.G. and the other defendants had acted in complete good faith in reliance on the General Electric case in entering into the license agreements, and that there was no purpose or intent on the part of any defendant to use the licenses as a guise for fixing prices in unpatented products or for use as a guise in doing these other things which are traditional violations of the Sherman Act; that there was no conscious or intentional misuse of the patents here involved.

When the case came back on remand following the first Supreme Court decision, there can be no doubt and it appears on the written record, that the jurisdiction of this

court had not changed in any way their view as to the conduct of the defendants.

The Supreme Court had spoken, and of course its word was to be followed by this court. As Judge Garrett stated in substance when we were before the court as to the terms of the provisions of the first decree, he said the Supreme Court has spoken, and of course its will must be followed, but we have not changed our views as to the facts of this case, and we should not be called upon to make findings of fact contrary to our views which were opposed to the facts which we found here when the matter was before us two years before.

[fol. 1832] Judge Jackson, at another point in that proceeding rather explosively challenged the Government when he thought, mistakenly, but he thought that Mr. Knuff was suggesting that the U.S.G. should be called upon to forfeit its patent rights and grant royalty-free licenses. Both he and Judge Garrett emphatically stated that there was no question of bad faith or evil intent here, that no one could question that the defendants had acted in the utmost good faith in reliance on the General Electric Case.

It was quite obvious that the court felt that the Supreme Court had changed the law on us just as it had changed the law on them, and Judge Garrett, with his typically dry humor, illustrated the point by a story when he referred to the lawyer who was arguing his case before the court and was interrupted by the court, which said, when the court said, "That is not the law." And the lawyer said, "It was until your honor just spoke."

Judge Stephens' view with respect to these—the extent of the defendants' wrong-doing, is quite obvious from his opinion, and from his refusal to join in with the majority who supported the Government's motion for new trial.

I respectfully submit that in endeavoring to appraise the full significance of the decrees entered here in this case of November 7, 1949, and again on May 15, 1951, this court should consider the provisions of those decrees in the light of this obvious feeling of the respective judges that they were called upon to rule against the defendants, not because [fol. 1833] of any great and scheming wrong which the court felt that they had done, but solely because of a technicality which had developed in the evolution of the law

with respect to past patent license agreements, and I respectfully submit that the opinion rendered by this court last July and the findings of fact and conclusions of law and decree which were entered last December 9, failed to show appreciation of that attitude on the part of the judges who formulated and entered the decrees first in November of 1949 and then in May of 1951, and that they reached conclusions inconsistent with and contrary to the purpose and intent of the court as to the scope and effect of the various provisions of the decrees which this court is now called upon to construe.

I would also like to take just a few moments at the outset to be sure that we have made clear our position as to the two Supreme Court decisions which were rendered against the defendants in this case.

The first opinion rendered on March 8, 1948, could only have been dealing with the prima facie case. Only the Government's evidence had been received. The defendants had not presented their case. We had made a motion for dismissal under rule 41 (g) of the Federal Rules of Civil Procedure, which provided then, as it does now, that at the conclusion of the plaintiff's case the defendant may move to dismiss without waiving in any way his right to proceed with his evidence if the motion is denied.

The question raised on such a motion then was merely [fol. 1834] whether the plaintiff had by his evidence produced enough to make out a prima facie case and thus compel the defendant to proceed with its evidence.

As the Supreme Court said in holding that there was error in granting the motion under Rule 41 (b), we think that the industry-wide license agreements entered into with knowledge on the part of the licensor and the licensees of the adherence of others with the control over prices and methods of distribution through agreements and the bulletins, were sufficient to establish a prima facie case of conspiracy; thus everything said in that opinion must be read, I submit, in the light of the fact that the court was dealing only with the Government's evidence and consequently only with the question of whether a prima facie case had been made. And this is equally true as to those matters charged in the complaint which fell within the

traditional abuses of the Sherman Act, such as fixing of prices on unpatented products and the like.

In retrospect, it was probably a mistake for us to have moved under Rule 41 (b) for a dismissal, although I think the action was excusable and understandable, but we had been here in trial for months before a court which had not only this case but duties of—other duties in the respective courts to carry on, and when it seemed that there was a way to cut the matter short by such a motion, it certainly seemed the logical thing to do. But we had no idea that we were thereby cutting our right to put in our evidence [fol. 1835] or to be heard because the rule expressly provided other ways.

Now, upon remand, it was expected, of course, that the defendants would put in their case, and then the Government came forward with its motion for summary judgment, which we, of the defense, understood, and I think the court understood, to be based upon the proposition that you could lay aside all these controversial issues of fact and still the Supreme Court decision would entitle the Government to summary judgment on the fact which could not be contradicted, namely, the fact that there were licenses with price fixing throughout this industry that were adhered to by the parties in the fixing of prices of the patented board manufactured and sold under the licenses.

As Mr. Steffan, who was representing the Government along with Mr. Knuff, said in his presentation of that motion, we could lay aside all these controversial issues, such as fixing of prices on plaster, eliminating jobbers and the like, and still the Government would be entitled to relief because of what is said in the Supreme Court opinion.

It is perfectly clear, your Honors, that the decision of Judges Garrett and Jackson in sustaining the Government's motion was, of necessity, a very narrow adjudication. It was based, as they said, upon the assumption of the truth of all the defendants' proffered proof.

I shall not, of course, take the time here to go into that [fol. 1836] proffered proof. It is set out in abstract form and yet in some detail at pages 22 to 26 of the original brief, which we filed with this court in September, on September 8, 1953, but I respectfully urge that the court, if it—in the giving of reconsideration of these matters, I

urge that the court again read the proffered proof with the thought that it might give a more complete understanding of the purpose and effect of some of the provisions incorporated in the court's decrees which this court now must try to construe.

Suffice it to say that the assumption of the truth of the defendants' proffered proof took out of the case the manifold charges of misuse of patents and the Sherman Act violations which were originally charged in the complaint, and cut down the case to the proposition that the industry-wide licenses were price fixing, entered into with knowledge of the parties, facts which we could not deny and did not try to deny in our proffered proof, constituted a concerted action in restraint and monopolization of trade, and, therefore, in violation of the Sherman Act for which the Government was entitled to relief.

Now, the second, and I want to say a word about the second Supreme Court decision, for it accepted this court's limited adjudication and it justified its dismissal of U.S.G.'s appeal on that basis. The Supreme Court said in its opinion that it read the preliminary statement and the decree itself as an adjudication of violation of the Sherman Act by the action in concert through the fixed price [fol. 1837] licenses, accepting as true the underlying facts in the defendants' proof of proffer. That the trial judges understood the summary judgment to be, and I am quoting as Judge Stephens said, "limited to that undisputed question."

And that conclusion entitled the Government only to relief based on that finding and on the proffered facts, and that on that basis the court had dismissed U.S.G.'s appeal and was considering the Government's objection to the decree.

The Supreme Court's action in ordering an expansion of certain provisions of the court's first decree, and I want to emphasize that, the action in expanding the provisions of the first decree, that was based upon the simple proposition that once you have established a law violation, then the Government is entitled to broad, ample relief, and is not limited, as the court said, to the narrow issues of the proven violation. That was the reason for the expansion of that decree. It was not that the court expanded the

adjudication of illegality to cover all these other traditional violations of the Sherman Act which were involved originally in the complaint but which were cut out of the case when it took the turn of a motion for summary judgment, assuming the truth of all the proffered proof which the defendants had offered.

Now, we believe we are justified in concluding that the court's opinion of July 6, 1954, did not, it failed to give full force and effect to these limitations on the scope of the [fol. 1838] two Supreme Court opinions which must be kept in mind if a proper appraisal is to be made of the meaning of the various provisions of the decrees in this case that were entered in '49 and '51.

Thus the opinion of July 6, 1954, states that the Supreme Court in its first opinion determined that there was conspiracy to control prices and to monopolize the Gypsum industry; that the results created and applied to effectuate the purposes were license agreements covering patents owned by U.S.G.; that the license agreements covered: (a) control of prices of patented Gypsum board, (b) controlled affection of prices of unpatented products, and (c) control over terms and conditions of sale and distributions thereof; and that in the second Supreme Court opinion the court expanded its ruling to find that the license agreements covered control of prices of Gypsum, unpatented products as well as the patented board. Moreover, the opinion dealt throughout with that first Supreme Court opinion as if it had constituted a ruling of broad violation after a full hearing and not merely a determination with respect to the prima facie case at the close of the Government's evidence and without regard to the defendants' proffered proof.

And it dealt with the second Supreme Court opinion as if everything said there was not subject to the court's accepting, as it did, the defendants' proffered proof as true.

Now, we recognize that technically certain of these points were corrected in the findings that were entered last [fol. 1839] December. For example, the words "prima facie" were inserted in finding of fact 4, which dealt with the first Supreme Court opinion, and there was stricken from finding 5, dealing with the second Supreme Court opinion, that erroneous reference that it had expanded

the adjudication to hold that the license agreements covered prices of unpatented Gypsum products as well as board, but it just seems reasonably clear that the apparent failure to give full force and effect to these limitations, which we believe must be read, to the two Supreme Court opinions had a substantial bearing on the other conclusions reached by the majority of the court, which found their way into the various findings and conclusions entered on December 9 and materially influenced the decree of that date which enjoined U.S.G. from further prosecution of all counts of its pending suits, and thus denied for all time U.S.G.'s right to compensation for the use of its patents during this 1948-51 period.

Now, one other point which I would like to mention in a preliminary fashion is that we feel the court has overlooked the fact that U.S.G. and the defendants, National, Certain-teed, Newark, Ebsary, and the others were effectively barred against the misuse of U.S.G.'s patents long before this decree took final form in this case. We believe that if that point had been fully appreciated, it is difficult to understand some of the conclusions reached and the decree which was entered.

Just to illustrate as a practical matter, when the Su- [fol. 1840] preme Court on March 8, 1948, came down with its decision that there was illegality prima facie in these license agreements, no person in his right mind would have tried to fix prices under those license agreements until we knew what the full significance of that decision was.

National says, in its petition filed with this court, and in the briefs in support of it, that the first Supreme Court decision found these license agreements illegal, and this court, by its findings 4 and 5, has accepted that view.

If, on March 8, 1948, the Supreme Court held that these licenses were illegal, then they were of no valid effect and to try to fix prices under them would have been patently illegal.

If U.S.G. had not stopped fixing prices years before that, back in 1941, it would have been compelled at that point to have ceased trying to fix prices under those licenses.

Now, certainly, if there could be any possible question about that when we were before this court on June 29, 1948, and the court by a two to one majority sustained the

Government's motion for new trial and found that there was illegality in the licensing setup in this industry, the use of the price fixing provisions in the licenses was for all practical purposes effectively stopped, and in this connection I would like to pause to point out to the court that this determination came in June of 1948, within a few months after the first Supreme Court decision, and not on June 14, 1949 as this court erroneously finds in its find-
[fol. 1841] ing Number 10, which was entered last December 9.

Then, again, on November 7, 1949, is another significant date. Because from that point on U.S.G. and its co-defendant companies became subject to specific injunction of this court against misuse of the patents by price fixing under the licenses.

And as this court held in its conclusion Number 7, which it entered last December 9, and I am quoting Article 4 of the decree of November 7, 1949, nullified completely the license agreements listed in Article 2, "The court further held that this nullification did not create a status but merely declared a status which had existed since the granting of the patent licenses.

There cannot be a shadow of doubt as to the effective bar against misuse of U.S.G.'s patents from that point on, not only by reason of the court having entered a specific injunction against us but by reason of the declaration which nullified completely these license agreements, and there was no possible basis for any further misuse of the patents by reason of the price fixing provisions in the licenses after that date.

Nor can there be the slightest doubt, your Honors, as to this court's intention of recognizing and establishing U.S.G.'s right to compensation for the use of its patents, at least from that point on, for the decree of November 7, 1949, guaranteed to these defendant licensees the right to continue to use U.S.G.'s patents, but upon payment of a reasonable compensation to U.S.G. for that use.
[fol. 1842] Moreover, from May 29, 1950, another date in this period, the defendants in this case were under injunction not only from this court but also from the Supreme Court against any misuse of the patents under these

patent license agreements or under any other arrangement or agreement in violation of the Sherman Act.

The effectiveness of the operation of these rulings and orders, decrees, as a bar against the misuse of U.S.G.'s patents by it or by any of the other defendant licensees, is clear from the fact that there has not been any suggestion made that there was during this entire proceeding that either U.S.G. or any of the defendants have violated any of the injunctive provisions of these decrees or orders.

Had this court fully appreciated the record in this respect, it is difficult to understand how it could have concluded, as it did in conclusion 11 which it entered last December 9, for example, that, and I am quoting, "The course of conduct of U.S.G. as clearly shown by the proceedings of record in the anti-trust case and in these suits brought by U.S.G. establish that U.S.G. did not purge itself of its patent misuse at any time prior to May 15, 1951 or" *or* conclude, as it did in conclusion 12 that was entered on that date, "that in view of the misuse by U.S.G. of its patents as a matter of law on the facts here which has not been purged, all claims of U.S.G. are barred and U.S.G. [fol. 1843] should be enjoined from all counts of these actions."

In our argument with respect to these specific errors in the matter of purge, I might say, will be handled specifically by Judge Bromley in his following argument. We will have occasion to refer to a number of the points which I have just reviewed in a preliminary fashion, but it seemed to me appropriate to bring that out because merely a statement of them raises to my mind a serious and substantial doubt as to the soundness of this court's decision to make short shrift of U.S.G.'s claim for the use of its patents during this period from 1948 to 1951.

Now, the first specific assignment of error in support of our motion for new trial is that there was fundamental error in the court's opinion of July 6, 1954, and in the findings, conclusions and decree of December 9, 1954.

In the ruling that continuing, unpurged misuse of U.S.G.'s patents exists as a matter of law because it seeks compensation from its co-conspirators for the use of its patents. As a consequence of this ruling, the court con-

cluded that U.S.G. should be enjoined from further prosecution of all the counts of these pending suits.

This determination cannot be based on any factual situation existing during the 1948-1951 period or in fact for many years prior to.

The evidence in this case was closed on April 19, 1944, and the evidence did not go beyond the period of 1941, so [fol. 1844] that we have no evidence in this case that was received that antedates or that post-dates 1941. Nor can it be based upon any claim that U.S.G. is using its patents to fix prices or to monopolize trade by the license agreements or other acts or courses of action or attempting to enforce the price limitation provisions of the license. There is not an iota of evidence that U.S.G. has attempted to fix the price under these patent license agreements since 1941, when all its price bulletins were withdrawn as this court concedes in its finding of fact Number 22 (a).

Moreover, as I have just shown during practically all of this 1948-51 period, U.S.G. was under an effective restraint against any misuse of its patents through operations under these license agreements, and during a substantial part of that period all of the defendants, including U.S.G. and the licensees were under injunctive order against misuse under those patents by this court and by the Supreme Court.

I have also pointed out that no suggestion has been made that there has been any violation of any of those injunctive provisions against the defendants.

The court has made this erroneous continued misuse as a matter law ruling, I submit, because of the fact that U.S.G. found in 1953 that if it was to collect for the use of these patents, it would be compelled to file suit against these defendant licensees or petitioners to recover the money for the actual use of the patents during that period, for which use compensation had never been paid.

[fol. 1845] The court apparently concluded that such a money action in some way constitutes a misuse of its patents by U.S.G.

We believe that this erroneous determination rests upon the facts, first, that we felt compelled to include in those suits counts 1 and 2 which were based on the old license agreements; and secondly, because the other counts cover-

ing quantum meruit and infringement asked for the same—had the same ad damnum clause as that that was contained in counts 1 and 2. In National's and Certain-teed's opposing statement which was filed in opposition to our motion for new trial, it was held that this was misleading because they say that this court did not hold that the mere bringing of suit for money resulted in a misuse of patents, and in support of that they refer to conclusion 13, but a mere reading of that conclusion and particularly that part which reads that the attempt of U.S.G. to enforce the royalty provision of the illegal patent license agreements is clearly misuse of its patents, I submit, only serves to demonstrate the accuracy of our analysis of this court's ruling.

Moreover, at the June 9, 1953 preliminary hearing, which we had here, at which Judge Cole was present but unfortunately Judges Stone and Worley had not taken their place on the bench at that time, Judge Rosenman stated as part of National's contention that, and I am quoting, "The very bringing of the suit is a misuse of the patent." [fol. 1846] Now, it only takes a reading of the complaints to see that all that the suits were seeking was a recovery of money for the actual use of the patents.

At the threshold, then, of our consideration of our motion for new trial is the question whether or not a suit by U.S.G. solely for the recovery of money for the use of—actual use of its patents, could possibly constitute a misuse of its patents such as would deprive it of the right to recover for the actual use as this court has held.

We say that it could not be. In the first place, it is—there is no authority for it. In fact, we say it is contrary to the only authority that we have been able to find. The court cites no authority, and from a very exhaustive research we do not believe any authority could be cited in support of this proposition.

It is obvious that the petitioners have been unable to find the supporting authority, for they say in their brief that certainly it would be difficult to find such a case.

At another point in their brief, they make an ineffective effort to supply some authority by saying that the Stroco Products case is one which can be cited as evidence that

the mere bringing of a suit could constitute a misuse of patents.

But that suit does not bear scrutiny as support for this court's ruling, for there what had happened was a suit had been brought in which it was claimed that there was infringement because of the sale of a non-patented item to go [fol. 1847] into the patented structure, and the court was of the belief that the very suit to try to restrict the sale of the unpatented product was of itself an attempt to extend the monopoly of the patent, and, therefore, a misuse of the patent.

Now, there is nothing of that character in this case, where, as I have stated, we are only seeking a money judgment for the actual use of the patents.

Moreover the Stroco Products case, as well as all the other cases cited in the petitioners' memorandum in opposition, were all prior to January first, 1953, the effective date of the new patent codification which I will deal with in just a moment.

The only case that we are aware of that has any bearing on this particular point is the Park-In Theatres case, which is cited in our points and authorities in support of our motion, and that case is contrary to this court's ruling.

The court rejected the defendants' motion for summary judgment on the infringement count, but at the same time dismissed the first count which was based on the contract, the basis of the dismissal being that the contract was illegal and in violation of the Sherman law.

Yet the court, although dismissing that one count, refused to dismiss the infringement count on the ground that purge raised questions of fact which could not be determined in a summary fashion such as a motion for summary judgment.

The petitioners seek to avoid the force of this decision [fol. 1848] by saying that the case is not in point, but their subsequent argument fails to support them.

The point of difference turns out to be merely this: In the Gypsum case the illegality of the licenses had been determined prior to the filing of the suit. In the Park-In Theaters case, the illegality of the license was adjudicated by the very court and in the very action in which the court

had knocked out the license agreement but refused to dismiss the injunction count.

I submit that that is a distinction without a difference. If suit to recover royalties under an illegal license agreement constitutes a misuse of a patent, then that must be so whenever the fact of illegality is established. Nor could it make any difference that in a prior case some District Court had thought that these license agreements were O.K., and legal.

The fact of the matter is that the court, which refused to dismiss the infringement count, found the licenses illegal as in violation of the Sherman Act, and yet did not think of treating the mere fact that a suit had been brought on those license agreements as constituting a misuse of patents that should bar the plaintiff from trying to recover for—under the infringement count.

Moreover, this continued misuse as a matter of law ruling, conflicts with the proposition that a suit to enforce a patent right is not, per se, against public policy, a proposition recently affirmed in the new codification of the patent laws which went into effect January 1, 1953, just shortly [fol. 1849] before the filing of U.S.G.'s suits.

That codification includes Section 271 (d) which provides that no patent owner otherwise entitled to relief for infringement shall be denied relief or deemed guilty of misuse or illegal extension of the patent right by reason of his having sought to enforce his patent rights against infringement or contributory infringement.

The granting of a license is nothing more or less than the granting of immunity against infringement.

A patentee's right to grant a license and receive compensation therefor is, we submit, clearly an enforcible right within the meaning of the declared public policy as set forth in the new patent law codification.

Since it is the declared policy that the mere bringing of a suit for infringement of a patent is not misuse, it must follow that a suit on a license agreement, such as on counts one and two, solely for the recovery of money does not of itself and alone constitute misuse.

The defendant petitioners appear to be somewhat disturbed with this point which we raise because they spent a substantial part of their memorandum in opposition in

trying to answer it. But the answer is without substance. They first say, in the first place, that the statute is limited solely to enforcing rights against infringement, and that U.S.G. not only had an infringement count but other counts on quantum meruit and counts one and two.

[fol. 1850] In that statement they are merely, I submit, supporting our claim which they had earlier charged was misleading, that this continued misuse ruling was primarily based on the fact that we had included counts one and two in the complaint.

Next, they say, in trying to answer this point, that it is apparent that the purpose and effect of section 271 was to correct a situation which had arisen in the Mercoid and other related cases, where a patentee who was using his patent as an effective means of restraining competition in an unpatented article was guilty of misuse and could not succeed in a contributory infringement suit even though the unpatented device was to be sold and used as an integral part of the patented system.

They contended that these cases and subsequent cases had raised a question as to whether you could ever have contributory infringement action under those circumstances, and that that was the purpose of section 271.

Now, although the enactment of section 271 may have been spurred by the Mercoid and the related cases, the fact of the matter is that the Section as passed dealt not only with contributory infringement, but with infringement as well. Thus, in 271 (a) infringement is defined. In sections 271 (b) and (c), two forms of contributory infringement are defined, and in subsection (d) it is provided that a patent owner shall not be deemed guilty of misuse merely because of an effort to enforce his patent rights against infringement or contributory infringement.

[fol. 1851] The petitioners' effort to limit the application of section 271 to contributory infringement suits is refuted by the case of Cole versus Hughes Tool Company in 215 Federal (2d), a Tenth Circuit Court of Appeals case.

There, suit had been brought for infringement of the plaintiff's patents and the contention was made that this effort to monopolize the particular field constituted a misuse of plaintiff's patents.

In denying the contention, the court stated that the bring-

ing of infringement suits to protect its lawful monopoly did not—in doing so, the plaintiff was guilty of no misuse of its patents, citing there section 271 and quoting in full section (d) which we point out in our points and authorities.

The defendant petitioners have not submitted a sound contention that this court's continued misuse as a matter of law ruling, based as it is on U. S. Gypsum's suit solely for recovery of compensation for use of its patents, is in conflict with the public policy as declared in section 271 of the patent law codification.

That alone should be sufficient to require the setting aside of this continued misuse ruling.

Now, another point we urge as showing error in the continued misuse as a matter of law ruling is that the——

Judge Stone: May I interrupt you just a moment?

Mr. Spray: Surely.

[fol. 1852] Judge Stone: Is the Cole case cited in your brief?

Mr. Spray: Your Honor, that is the case which I addressed a letter to your Honor saying that it was inadvertently omitted from the brief. It was in the reply brief which we asked leave to file and I am not sure that an order has been formally entered.

Judge Stone: I don't think I received that. That is the reason I am asking.

Mr. Spray: Well, I am certainly sorry.

Judge Stone: It is not your fault; it is somewhere else. Will you give it to me?

Mr. Spray: It is Cole versus Hughes Tool Company, 215 Federal (2d) 924, a Tenth Circuit case.

Judge Stone: Thank you.

Mr. Spray: And it is a decision, it is a 1954 decision, I might say, and we missed it in our reply brief but I followed it up with the letter right after that brief was submitted.

The defendant petitioners, as I say, have not given an answer to that patent codification law point.

Another point which we urge as showing error in this ruling is that it is inconsistent, we submit, with the May 15, 1951 decree.

If that decree determined anything with respect to the

rights between the co-defendants in this case, it was that the court wanted to be sure that these defendant licensees should have the right to continue to use U.S.G.'s patents on [fol. 1853] which they had been operating for a period of years, but that, at the same time, that U.S.G. was to receive compensation for that use of its patents.

Nor can anyone, by any stretch of the imagination, contend that by its suits U.S.G. is attempting in any way to enforce the price-fixing provisions of its licenses, which, as this court recognized, was the heart of the adjudication of their illegality.

All, as I have said, and I repeat, that we were trying to do was to recover fair compensation for the actual use of the patents. This is entirely consistent with the provisions not only of the decree of May 15, 1951, but also the provisions of the decree of November 7, 1949, and as I stated in my preliminary remarks, it certainly is clear that as far as Judges Stephens, Garrett, and Jackson were concerned, there is no doubt but what they thought that, at least from that date, U.S.G. should receive compensation for the use of its patents for the decree expressly so stated.

Moreover, the suits are consistent with the Supreme Court's order of May 29, 1950, which I have referred to. That order enjoined any further use or attempted use of the price-fixing provisions or any other price-fixing arrangements in this industry, but it carefully avoided any language that would have made it a violation of the order for the defendents to continue to use U.S.G.'s patents or for the defendants to pay for that use or U.S.G. to receive payment for such use.

The order is carefully limited so it did not affect that in any way.

[fol. 1854] Even if counts 1 and 2 should be held, as this court has ruled, to be inconsistent with article 4 of the May 15 decree, 1951, decree, there is no basis for holding that such a violation, involving as it did only the attempt to collect money for actual use of the patents, for holding that that constituted a misuse of the patents. To so hold is to inject a principle, without benefit of authority or evidence, that is inconsistent with this court's prior adjudications and determination as to U.S.G.'s right to receive com-

pensation whenever and wherever this court in the past has come in contact with the matter of defendants' continued use of U.S.G.'s patents.

Now, we further contend that the continued misuse ruling is inconsistent with and violates rules of modern pleading and, specifically, that it is inconsistent with Rule 8 (e) (2) of the Federal Rules of Civil Procedure.

That Rule clearly authorizes a party to set forth two or more statements of claim or defense, either in separate or the same counts, and expressly provides that the insufficiency of one statement or more than one statement shall not in any way affect the complaint, if there is a sufficiently stated statement of claim in the complaint.

It further provides that a party may state as many claims as he has, regardless of their inconsistency.

I feel that possibly I did not make it clear the last time I argued before this court as to why we felt compelled to [fol. 1855] include these various counts which we did in the outlying suits.

We had reached a point where we realized if we were ever to get paid for this use of our patents we would have to bring a suit, but the factual situation was a little difficult.

If the defendants had been using our patents without license or without authority, then, of course, we had the right to sue for infringement.

But if there was some authority for the use, either by express contract or an implication in law, then, of course, we could not succeed in infringement and we had to have a suit on the contract of some form. But it was not as simple as that. We did not know for sure what the ultimate proof might establish and what the court might hold as to what that authority was, whether it was by express contract or whether it was under facts from which the law would imply an agreement to pay, and, therefore, we felt we had to state the alternate claims.

We also recognized the possibility that some defendant in one of these cases would come up and say, as his authority for using the patents, "Why, I had a license from you," and refer to the old license agreement, just as Na-

tional actually did in its defense that it filed out in the Iowa suit we brought against National.

Now, it was in anticipation of such a defense that we felt compelled to include counts 1 and 2, lest the court might rule that, "You did not state your proper basis of claim," [fol. 1856] and that ruling could come after the Statute of Limitations had run and we would be out of luck as far as recovery was concerned.

We felt that a count on the old contract must be included as a proper and necessary precautionary measure actually authorized by the Federal Rules of Civil Procedure.

Certainly, no authority had ever before suggested that such precaution on the part of the lawyer would result in a claim that the plaintiff had thereby misused its patents and forfeited its right to recovery under any theory.

It is obvious that the inclusion of those counts was, I believe, a fundamental reason for this continued misuse as a matter of law ruling, for not only in the opinion but also in its conclusion 13, this court has stated that, and I am quoting, "The attempt by U.S.G. to enforce the royalty provisions of the illegal patent license agreements is clear misuse of its patents."

We earnestly urge reconsideration of this action which has severely penalized U.S.G. for pleading alternate and inconsistent claims, in accordance with the Federal Rules of Civil Procedure.

We sincerely feel that such a penalty is unfair and inequitable and has no justification in a court of equity.

This brings me to the final point we assert in showing error in this continued misuse as a matter of law ruling, and that is the apparent attempt to attach a stigma of misuse to the counts other than counts one and two, on the ground that they are, as the court said, "posed on the same underlying factual situation created by the license [fol. 1857] agreements and because of the similarity of the ad damnum clause."

I am not sure that this court fully appreciates that in counts one and two we actually did not attempt to enforce the royalty provisions of the license agreement. The license agreement provided that for the use of these foam patents, the licensee must pay a one percent royalty of the selling price of all board manufactured

and sold by it, whether or not a patented board and whether or not manufactured by the use of U.S.G.'s patents.

We do not attempt to recover on that basis. We limited our suit in every suit and in every count of every suit our attempt to recover was solely for the use, actual use, of U.S.G.'s patents, and that is true with respect to our suits in count- one and two as well as three, four, five and six, and the other counts.

I remember being somewhat surprised at the last hearing when Mr. DeWitt, speaking for Newark, was so exercised because, as he said, he would go off outside the record to say that Newark actually had a process of its own and was not using U.S.G.'s patents.

Well, if that is so, right in his own backyard, we had a suit where all that he needed was to put in that defense and we were not even seeking recovery if we could not establish that he was actually using our patents during this period.

Another point of significance in this connection is the [fol. 1858] proposition of law, that where a licensor has established a royalty rate for the use of his patent, that will be the maximum that he can hope to recover either under a quantum meruit or under an infringement count. That is the yardstick for measuring reasonable compensations for use or damages for the use of the patents.

U.S.G. and these very petitioners at arm's length negotiations had established years ago, and paid on that basis, one percent as the reasonable rate for the use of these foam patents which are involved in these suits.

Following the decree of this court on May 15, 1951, National, Certain-teed, and Celotex, who are not involved in these petitions—and who is not involved in these petitions, all took advantage of that provision in the decree that they could apply for and obtain a license under any of U.S.G.'s patents. And, as a result of that application, new licenses were entered into which established this one percent as the reasonable royalty for the use of these patents, and that was notwithstanding the fact that the decree provided that if we could not agree in our arm's length negotiation on a reasonable royalty, this court was open and free for anyone to come in and establish what the reasonable royalty was.

Now, in that factual background, it was just as certain as death and taxes that the maximum that we could ever receive by way of reasonable royalty for the use of these patents was that one percent, and in view of these two facts, [fol. 1859] namely, that we were suing only for the actual use of U.S.G.'s patents, and the fact that we could only recover the one percent under whatever theory we might be successful, it was just a certainty that our ad damnum clause must of necessity come out the same in each of these counts insofar as the counts covered identical periods.

Finally, there is no basis, we submit, for the statement that the counts were all posed on the same underlying factual situation.

A careful study and reading of the counts will show conclusively that they were based on inconsistent factual situations, and certain of the counts, three, four, and five, for example, were for a period—take three, for example, where it specifically alleged that the license agreements were terminated and, therefore, we were suing for a period not covered at all and for which we could not have recovered under the license agreements.

We submit that the continued misuse as a matter of law ruling, is clearly wrong, your Honors, and that the findings and conclusions and decree of December 9, 1954, based on that ruling, are equally erroneous, and should be set aside.

Now, the second point which we raise in our motion is the question of the error in determining the purge issues in a summary fashion, as this court has done, and as I have pointed out that will be covered by Judge Bromley, and I would like to move to our third assignment of error, which is that there was manifest error in the court's ruling that the final decree of May 15, 1951, should be expanded beyond what we believe to be its basic purpose, [fol. 1860] and that new rights be created in the co-conspirator licensees in disregard of the position which the Government has taken in this case.

In support of this contention, we rely at the outset upon certain indisputable facts. Neither the petitioners nor this court can point to any provision of the final decree, other than article four, as furnishing any basis for the claim that the suits brought by U.S.G. were violative of the provisions of that decree.

None of the injunctive provisions in any way prevented U.S.G. from recovering compensation for the use of its patents and compulsory licensing provisions, which were included in the decree, assured it a reasonable compensation for any continued use of any of its patents.

Secondly, this court conceded that article four does not either expressly or by fair implication cover the counts in U.S.G.'s pending suits other than counts one and two, and that if prosecution of the counts is to be enjoined, it must be by a modification of the decree.

Furthermore, it is recognized by the court and by all the parties that any modification of the decree must be within the basic purpose of the decree as originally entered.

Notwithstanding these unquestioned propositions, this court has modified the decree of May 15, 1951 in so material a fashion as to exceed any authority which it inherently had [fol. 1861] or which it reserved to itself by article 10 of the decree or otherwise.

Now, a word about the basic purpose of this decree, which was entered, and with which we are all earnestly concerned: This litigation was brought by the Government, charging the defendants with violation of the Sherman Antitrust Law.

It resulted in an adjudication that the defendant companies had acted in concert, in violation of sections one and two of the law, to restrain trade and to monopolize the Gypsum board industry.

This adjudication which was contained in article 3 of the decree is, as this court's opinion states, the heart of the final decree.

That being so, it is obvious that the basic purpose of the decree must have been to give the Government adequate relief, to prevent agreements or understandings in the future resulting in antitrust violations, whether through license agreements or other acts or courses of action.

That is exactly what was intended to be, and was, accomplished by the provisions of article 4, injunctive provision of article 5, and the compulsory licensing provisions of article 3 of the decree.

No suggestion has been made by anyone that the provisions of the decree have in any way failed to accomplish that purpose. The Government, which is here, as the spokes-

man for the public interest and the only party plaintiff in this case, has clearly stated its position.

It takes the view that the effect of article 4 should be to [fol. 1862] bar any attempted endorsement of the old license agreements, but it expressly states that it takes no position with respect to the other contentions raised by the pleadings wherein the petitioners urge that the decree should be expanded to prohibit U.S.G. from prosecuting the quantum meruit and the infringement counts in the pending suits.

The Government, which brought this suit and alone represents the public interest, has expressly stated that it has no interest in this private squabble which has arisen. It does not ask that this court be encumbered with these extraneous issues of a purely private nature.

I have the greatest respect, and I am sure we all do, for the Department of Justice in its effort in the first place to obtain sufficient relief to carry out the basic purpose of its suits that it brings, and in the second place to be sure that the relief which it has obtained has proved to be adequate.

I have not the slightest doubt but that if the Government believed that a modification of the decree to enjoin the prosecution of the quantum meruit and the infringement counts in these pending suits was in the slightest degree necessary or proper or even appropriate to carry out the basic purpose of the decree, it would have taken an emphatic position before this court and strenuously urged that that action be taken.

But it did not. It said it has no feeling on this matter, takes no position.

[fol. 1863] But nevertheless, the court has seen fit by its action of last December 9 to modify the decree to include therein an extraneous matter which it concedes in its opinion was not dealt with at the time that the decree was entered, although both decrees heretofore entered in this case recognized the plea of these defendants, that they surely be given the right to continue to use these patents for which they said they were willing to pay; the court now injects this amendment to assure the co-conspirator licensees an additional right to avoid payment of their actual use of U.S.G.'s patents pendente lite.

We believe that the concern, the tender concern, showed for these co-conspirator licensees is unwarranted.

The court finds in findings 6 and 7 that as a result of the patents' misuse, the co-conspirator licensees have organized their manufacturing plants and conditioned their business upon the continued use of U.S.G.'s patents, and that when the Supreme Court held the license is bad the licensees were placed in an uncertain and untenable perilous position and they elected to disregard the licensees and to continue to use the patents.

From this the court finds a basis for amending the decree to enable the defendant petitioners to secure or preserve, as the court said, "the fruits and advantages of the judgment that had been entered against them."

Frankly, I am at a loss to know just what fruits and advantages a co-conspirator in an antitrust case is entitled to.

[fol. 1864] If National, Certain-teed, Newark, Ebsary, had conditioned their business upon the use of these patents, that was part and parcel of their participation in the conspiracy, and no court can equitably say that they should benefit through their transgression by having free use of those patents.

This would seem to be particularly true where the decree itself provided that they must pay for any continued use of the patents after the decree.

This court's opinion of last July seems to rely quite heavily at this point upon the Missouri-Kansas Pipe Line case reported in 312 U. S., which was referred to in the court below as the Columbia Gas and Electric case as support for the conclusion that the petitioners were given rights in the final decree affording them a status to seek amendment to the decree.

Actually, that case is quite dissimilar, for there the petitioner, the Panhandle Pipe Line, was not a co-conspirator but was a victim of the conspiracy, and the consent decree which had been entered with the concept of the Government expressly provided that if Panhandle, in the future, should feel it was necessary to intervene in order to enforce its rights which were given to it in its protection, it might do so. That, I submit, is a far cry from the situation that we are dealing with here.

A final point in this particular connection which we make is that the court's ruling violates the well-established principle that the rendition of a judgment in an action does [fol. 1865] not conclude the parties to the action who are not adversaries under the pleadings as to their rights inter se, in which there has been no joinder of issue or not opportunity for determination, and as to which they had not litigated among themselves.

There were no issues joined as between the defendant coconspirators. The court did not purport to make any adjudication of rights as between them with respect to their obligation to pay for U.S.G.'s—for the use of U.S.G.'s patents during this 1948-51 period.

And in this connection, it seems to me that the court's findings and conclusions were quite unfair in the handling of the controversy which did develop between these defendants at the time of the June 14, 1949 hearing.

All of the defendants were in accord with the proposition that this court, by its granting of the Government's motion for summary judgment, had found a law adjudication on a very narrow issue.

Up to the time of the argument, all of them appeared to be in agreement by the papers which they had filed, with the proposition that article 4 should only strike the price-fixing provisions out of the licenses rather than to strike down the license agreements in their entirety.

At the June 14, 1949 hearing, the defendant licensees for the first time advanced the proposition that article 4 should strike down the license agreements in their entirety and not simply strike out the minimum price provisions.

[fol. 1866] Judge Worley: What was that date?

Mr. Spray: Sir?

Judge Worley: What was that date?

Mr. Spray: That was June 14, 1949 when we were before this court in considering the terms of the decree and whether or not findings of fact should be made.

In support of this request, the defendant licensees assigned specific reasons why they wanted this article 4 stated just that way, and in none of those reasons, although they specified them, in none of them did they suggest to the court that what they were wanting was to use that as

a basis for avoiding payment for their current use of U.S.G.'s patents.

One of the attorney's representing Celotex, and, as this court stated in its opinion, obviously also representing Certain-teed in this statement, assured the court that that was not the reason, that they had no idea or thought of trying to prevent payment for the use of the patents, and while the others, the court, did not find that this gentleman was speaking for the others the fact of the matter is that he is the one who was presenting this form of decree, this particular clause, and the others sat there and did not in any way dissent from his statement, but rather specifically stated their reasons and omitted any suggestion that it was in order to avoid payment of these—for the use of the patents.

Now, U.S.G. continued to urge, as it had in the past, urge [fol. 1867] at that hearing that only the minimum price provision should be stricken and not the licenses in their entirety, and in that argument, and in the memorandum which was filed subsequently, it suggested and stated that the only reason the defendants could have for wanting that to read as they suggested was to try to avoid an accounting to U.S.G. for the use they were making of its patents.

The court, in its finding, magnifies this statement to a point, I respectfully submit, all out of proportion to the place which it has in this course of events, and completely ignores the statements of the defendant licensees which negates the idea that they were seeking this particular wording of article 4 in order to avoid their obligations to pay for their use of U.S.G.'s patents pendente lite.

We respectfully urge that if our motion be granted, these findings with which I have—on which I have just commented, should be revised to treat, I submit, a little more fairly the position which we feel all the parties had in that particular negotiation.

Now, the Hartford Empire case has been a point of controversy since the filing of the defendant petitioners' original brief, and much has been said about it.

In that first brief filed by the petitioners, it was contended that Hartford Empire was the guiding star which should be controlling in this court's determination of the petitions for

[fol. 1868] an enlargement of the decree to enjoin U.S.G. from suing for the use of its patents pendente lite.

In our original brief, we distinguished the Hartford Empire case on a number of points, not the least of which was that in that case there had been a full hearing, and an ajudication of a very sweeping Sherman Act violation, whereas in our case the decision of law was a narrow one, and based upon the assumption of the truth of the defendants' proffered proof.

Further arguments were made by the defendant petitioners in their reply briefs in an effort to show the similarity between Hartford Empire and this case.

The court then came down with its opinion last July in which it reviewed Hartford Empire in some detail and concluded that in that case the Supreme Court had made a distinction between a suit for infringement and a suit on quantum meruit for use of patents, and said that the teaching of Hartford Empire required this court to conclude that prosecution of the infringement count should be enjoined by this court but that there was no reason why U.S.G. should not proceed with a quantum meruit count claim unless U.S.G. was continuing to misuse U.S.G.'s patents.

In our points and authorities which we have filed in support of this motion for new trial and in the defendant petitioners' statement in opposition to our motion, Hartford Empire comes in again for further treatment, and as I read the conflicting statements in the two briefs, it would seem to [fol. 1869] me that both the petitioners, as well as U.S.G. are in accord on the contention that the court erroneously construed Hartford Empire in drawing their distinction between quantum meruit and infringement.

But the significant development, I submit, in the review and counter-review of this decision would seem to be the fact that there was an ultimate settlement made in the Hartford case between Hartford and its respective licensees, whereby the receiver paid the licensee, each licensee, who executed a covenant not to sue Hartford for anything that happened before the date of the decree a sum equal to 60 percent of the royalties which that licensee had paid into the court receiver and was to pay over to Hart-

ford Empire 40 percent of that amount that had been paid in by each of these licensees pending the litigation.

This settlement resulted in Hartford Empire's receiving a total of over $7,267,000 from its licensees during this pendente lite period.

This recovery was for the furnishing of services, for the rental of machines, and for the use of patents under the illegal license agreements during this same period in which this court has seen fit to enjoin U.S.G. from seeking a reasonable compensation for the actual use of its patents by its —by the co-conspirators.

In their statement in opposition the petitioners seek to overcome the significance of this effect by stating that the court in Hartford Empire was dealing with a special situa-
[fol. 1870] tion, a special problem of handling earmarked royalties which had been collected from the various licensees by the court receiver.

If the court in Hartford Empire had so desired, it could easily have given the licensee a free ride by merely ordering the receiver to return to each licensee the earmarked royalties that he had paid, just as Mr. Justice Rutledge in his dissenting opinion suggested it ought to be done.

The court, however, did not so choose to confiscate the patentee's property to the special benefit of its co-conspirators, but rather approved the Hartford Empire settlement which resulted in the patentee receiving this substantial compensation for the use of its patents pendente lite.

The petitioners are likewise unjustified in their reliance on the language in the first Supreme Court decision in Hartford Empire, that in view of the nature of the conspiracy, further prosecution of suits for infringement pending at the date the antitrust action was brought should be enjoined.

The nature of the conspiracy developed in that case was that there was a plan to bring everyone in the industry into the conspiracy, either voluntarily or involuntarily by harrassing law suits.

These suits of that type are in no way comparable to the U.S.G.'s efforts to collect compensation for the actual use of U.S.G.'s patents.

Rather, the defendant petitioners' position in this case
[fol. 1871] is like that of the Hartford co-defendants who

were compelled to pay for their use of the patents during this same period.

In this connection, it is interesting to bear in mind that the Hartford final decree, in enjoining the corporate defendants from seeking recovery for infringement for prior use of the patents, the decree expressly excepted from that injunctive provision any such recovery, and I am quoting, "against any other corporate defendant."

Nor can the defendant petitioners avoid the significant fact that although the court in Hartford included an injunctive provision against infringement suits, except as against corporate co-defendants, the court in this case did not include any such injunction against U.S.G., either in its decree of November 7, 1949, or in its decree of May 15, 1951.

The petitioners' reference to the period in which Hartford collected royalties from its co-conspirators as being that period between the initial and final decree only serves to spotlight a manifest error in this case, in the failure of the court to give full significance and effect to the court's initial decree of November 7, 1949.

After all is said and done, it would seem that possibly the most distinguishing feature between Hartford Empire and this case in the present state of the record is that Hartford Empire was permitted to receive over $7,000,000 compensation for its services, machines and patents during this period of the trial under the licenses which were declared [fol. 1872] to be illegal, certainly in that case, whereas in the comparable period in Gypsum this court has, by its decree of December 9, 1954, ruled that U.S.G. should be deprived of any compensation whatsoever for the actual use which its co-conspirators have made of its patents during that period.

In the final analysis, Hartford Empire, far from supporting the petitioners' position and plea for an expansion of the decree of May 15, 1951 to enable them to avoid payment for the use of U.S.G.'s patents, actually demonstrates the inequity and impropriety of the action which this court has taken. There is nothing in the record which would suggest any sound, proper basis for the proposition that U.S.G. should not be given at least as fair treatment as Hartford Empire with respect to the use of their respective patents pendente lite.

The balance of our argument, if the court please, the argument on direct, will be handled by Judge Bromley.

Judge Stone: Judge Bromley.

ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Bruce Bromley, Esq.

Mr. Bromley: May it please the court, my name is Bruce Bromley. I hope to continue the very excellent presentation thus far made by my brother Spray on behalf of the U. S. Gypsum Company.

Our Anglo-Saxon jurisprudence has always abhorred any forfeiture of private property. Our state and Federal Constitutions all, I think, seek to preserve private property [fol. 1873] against deprivation without due process, meaning, in part, at least, without just and adequate compensation. These principles have been guides in the restraint of trade or antitrust field. And especially have they been guides for the Supreme Court in setting standards for the formulation of relief against violations of the criminal statutes found in sections one and two of the Sherman Act.

For instance, in those rare cases, monopoly cases in part where divestiture of assets or stock has been ordered to remedy a restraint of trade, that divestiture has always been conditioned on the receipt of just compensation for the property transferred by the violator. That same principle is applied where monopolies had purchased or acquired patents, have been ordered disposed of, always on condition that the violator shall be entitled to receive adequate compensation for the property which he was thus ordered to sell.

And finally, so likewise, where compulsory licensing of patents has been ordered, it has been on the condition that the compulsion is effective only if the party ordered to grant licenses receives a reasonable royalty therefor. The Supreme Court has never imposed compulsory licensing of patents without the requirement that that license be paid for at reasonable rates.

To put it another way, the Supreme Court has never imposed royalty-free licensing of a compulsory nature.

Now to me, these principles were the background rules which governed the Supreme Court in its handling of Hart-

ford Empire, and I look at Hartford Empire in a slightly different light from the way in which Mr. Spray has [fol. 1874] presented it to you. I like to emphasize that in that case before Judge Kloeb, after a full trial the District Court held that Hartford Empire had used patent licenses coupled with a leasing system of its patented glass-making machinery in violation of the antitrust laws, and the District Court ordered all such license agreements which he said were void and illegal to be cancelled, and he ordered the abolishment of the entire system of patent licenses and machines and service agreements and leases.

Now, when he came to frame the relief, having found that broad antitrust violation, he ordered Hartford Empire compulsorily to license all these patents royalty-free. He imposed a drastic sanction indeed, and he ordered for the future Hartford Empire must license its patents for nothing to anybody who wanted them. And I think that is a very important factor to keep in mind when we consider what happened thereafter.

As a part of the relief in the original Hartford Empire decree which came down in 1942, Judge Kloeb very wisely, I think, appointed a receiver for Hartford Empire and he instructed him to make sure that while the appeal processes were being followed, Hartford Empire did not further violate the law, and at the same time to see that the company was not ruined by being taken advantage of unfairly by its licensees, and he specifically ordered the receiver to collect, to continue to collect, all patent royalties and service fees if he could, and to deposit them in a special account, and [fol. 1875] by paragraph 15 of Judge Kloeb's decree, he specifically provided that if his determination was affirmed in the Supreme Court, with respect to this royalty-free licensing, that then the royalties which the receiver had collected were to be returned to the licensees; that is to say, Judge Kloeb said, as punishment for this violation, Hartford Empire, "you must give free use of your patents for the future, and also for this interim pendente lite period between the date of my decree in '42 and the date when the Supreme Court will have acted," and the Supreme Court finally came to act and a final decree was entered in 1945, so in that suit we are considering a three-year pend-

ente lite period just as we are here in our pendente lite period from 1948 in our case to 1951.

Now, when that decision got to the Supreme Court, the Supreme Court, among other things, reversed Judge Kloeb's finding as to compulsory royalty-free licensing.

We participated in that case and it was a decision of the greatest importance and so treated by all counsel, because we saw there, on behalf of American business, a very serious invasion of private property rights.

We felt it was a forfeiture of private property in violation of all of our fundamental thinking and our constitutional principles, and we argued with great, great earnestness that the Supreme Court should not sanction this compulsory royalty-free licensing, and the court found with us, and reversed Judge Kloeb, and said that the compulsory [fol. 1876] licensing, of course, be accompanied by the right of Hartford Empire and the obligation of its licensees to pay reasonable royalties for the use of those patents even though they had been grossly misused.

And the Supreme Court ordered that the royalties collected by the receiver for the interim period should be paid to Hartford.

The Government being dissatisfied with that determination and the able young partner of Judge Rosenman, Mr. Seymour Lewis, was acting for the Government in those days and, if I misstate anything, I am sure he can tell Judge Rosenman who can call it to your attention, the Government being dissatisfied with that applied for rehearing, and rehearing was granted, and the court specifically considered this point about compelling the licensees for the pendente lite period to pay royalties as well as for the future, and upon that reconsideration, it made the following direction: It said, "That unless Hartford has been guilty of some added violation of the antitrust laws since the 1942 decree, the licensees must elect whether to remain licensees at a reasonable rental for the future or to repudiate the licenses and litigate against Hartford whether or not in the precise circumstances Hartford was entitled to get any compensation for the pendente lite period."

Now, the matter came back to Judge Kloeb and he entered a decree on October 31, 1945, after this Supreme Court direction, and by paragraphs 10, 11 (a), and 11 (f) of

[fol. 1877] that decree, he provided an order that Hartford Empire, no violation having been shown after October, 1942, was entitled to royalties from October, 1942, the date of his first decree to October 31, 1945, the date of his final decree.

Now, why was it that Hartford only got 40 percent of those royalties as Mr. Spray told you?

It was for this reason: Most of these licensees were not co-defendants as we have here, and they thought they had, and probably had, good treble damage claims against Hartford Empire, so the receiver and the court worked out a settlement whereby the licensees released Hartford Empire from the licensees' claims for treble damages, and that is why they got the 60 percent back, and the receiver paid 40 percent remaining as royalties, for the pendente lite period, to Hartford Empire, and that 40 percent amounted to the figure of $7,267,000 which Mr. Spray mentioned.

And finally, as Mr. Spray pointed out to your Honors, the final decree not only gave Hartford Empire royalty compensation for this interim pendente lite period, but provided that it should have the right to bring infringement suits against co-defendants for that same pre-final decree period.

So that I say that case, as exemplified in the Supreme Court determination itself, shows the application of that case to this case and shows that despite the determination of illegality made against the Hartford licenses, and despite the determination of illegality made against our licenses, [fol. 1878] that we are entitled to compensation for that pendente lite period unless somebody comes forward and shows that during that period we violated the antitrust laws.

Now, even Judge Rosenman concedes, or did upon the occasion of the last argument, that the final decree in this case of May 15, 1951, accomplished a complete purge, for he said that as I read him on page 41 of his oral argument, and I think that is clearly right.

Certainly no one could contend, I think, that that decree did not certainly accomplish a final and complete purge. I think the purge occurred much before that, but I want to call to your attention what your decision has done with regard to that point.

Judge Stone: Judge Bromley, may I interrupt you. Would it be agreeable for you for the court to take a recess of about ten minutes, now, not breaking into your argument too much?

Mr. Bromley: No, sir. It is all right, sir.

Judge Stone: The court will recess for ten minutes.

(A short recess was taken.)

[fol. 1879] Judge Stone: You may proceed, Judge Bromley.

Mr. Bromley: May it please the Court, having in mind that it is probably clear that a complete purge occurred at least by May 15, 1951, let us look at the situation of Ebsary and Newark under this court's decision.

They did not see fit to take a compulsory reasonable royalty license from us under that decree, as did National and Certain-Teed, and according to our information, Ebsary and Newark have nevertheless continued to use our patents right down to the present time.

Your Honors have seen fit to enjoin us from seeking any recovery even after May 15, 1951. Since your determination is that the mere bringing of a suit to collect money for the use, even after the complete purge accomplished by the final decree, since your determination is that the mere bringing of a suit evidences or is a continued misuse of our patents, so that as we have stood for some time, if National and Certain-Teed, which took these compulsory reasonable royalty licenses should suddenly stop paying us, I guess we could sue them under those new licenses and recover the reasonable royalty, but this court has said that Ebsary and Newark, who are going ahead according to our contention and making the same use of the patents, are absolutely insulated, and there is nothing we can do about it, because having been smart enough not to take a compulsory license, they can go ahead from now until [fol. 1880] the end of time or the end of the patents, and use our patents and we cannot sue them because we have done so, and your Honors have, by modification of the decree enjoined those suits against those two people.

Now this merely emphasizes, to my way of thinking, your Honors, that the mere bringing of a suit as Mr. Spray

said, for money, cannot be a misuse and cannot be evidence of a misuse. The question always is what was the actual misuse of the patents and when did it occur and when did it end.

Now so far as the trial on the merits is concerned before this court, it is perfectly clear that the only period of misuse that was established in any fashion was a period from about 1926 to no later than 1941, because there was not any condition, or acts that were litigated subsequent to the end of the period in 1941. So that the only misuse then, I say, ever adjudicated by anybody in this controversy cannot possibly be for any period other than 1926 to 1941.

Now if we were given an opportunity, as we should be, if we could go ahead with these infringement and quantum meruit suits against these defendents, we would want to prove purge by showing what happened in 1941, in 1942, and three and four and five and six and so on. We would want to show how competitive conditions in the industry changed after 1941. We have gone through a war since the end of that period, we have had governmental price fixing during a part of that war.

[fol. 1881] There has been intense competition in the industry. We could, I think, successfully show, if ever given the opportunity, and I don't believe one could ever produce evidence of anything that we had done after 1941 that could possibly be said to constitute any misuse of our patents, and certainly, there could be no evidence produced that after March, 1948, which is the beginning of this pendente lite period, from March, '48 to May, '51, certainly no one could say that after March, 1948, when the first Supreme Court decision came down, that we ever thereafter misused our patents, which we had not been misusing for seven years prior to that time.

And I say, if we ever get the opportunity to prove a purge as a matter of fact, which these infringement suits would afford us, that is the kind of proof we would want to bring forward in support of our defense that all unlawful, improper results flowing from our 1926-1941 adjudicated misuse, had long since dissipated prior to March, 1948, and no misuse of any kind existed in the pendente lite period from March, '48 to May, '51 in suits against two of

these defendants, and, of course, did not exist as against the other two from March, 1948 down to the present time—down to the beginning of the suits against those two who did not take the compulsory license from us under the '51 decree.

So I respectfully submit to your Honors that the second basic error in the opinion and determination of the [fol. 1882] court as we see it, lies in your Honors' determination that our earlier misuse of our patents as a matter of law has not been purged.

Now that error, I think, is two-fold in nature: First, it has denied us the right to be heard on the purge issues, which I think all courts agree are generally and primarily and almost invariably matters of fact; and secondly, I respectfully submit that our purge contentions have been misconstrued.

If I am right that purge is factual, then it is impossible to say accurately now that as a matter of law we have not purged our misuse.

There are numerous cases in which efforts have been made to get summary judgment and they have been denied always, I think, because the courts have correctly determined that they cannot be determined as matters of law, but must be decided as matters of fact.

That was the effect of the Park-In Theatre decision in Delaware to which Mr. Spray referred and which is discussed in our brief. There are other cases in our brief of September, 1953, to the same effect. One of them, in Massachusetts in the Federal Court, I venture to read just this sentence. The court said, "Whether such a satisfactory purge has taken place is, of course, largely a question of fact. There is a question then which must be determined at a trial on the merits and plaintiff is entitled to the opportunity to demonstrate to the court that such leases have been abandoned and that a satisfactory purge has been effected."

[fol. 1883] Now, in saying again that the critical period here is March, '48 to May, '51 and remembering that the evidence in the case was closed in April, 1954 and that no evidence has been accepted with respect to anything that happened after 1941, I say that it is impossible to contend that as a matter of law, we have not and cannot show purge—

the evidence closed in April, 1944, thank you, I mispoke myself.

Judge Cole: What is the title of the Massachusetts case?

Mr. Bromley: That Massachusetts case, sir, is Hoag Sprague Corporation, versus Bird and Son, 91 Federal Supplement 159, decided in 1950. It is in our September, 1953 brief at about Page 132, between 131 and 134—132.

Judge Stone: That is not in your brief on this motion.

Mr. Bromley: No, that is the original brief, the original brief of September 1953, yes.

The only thing in the nature of evidence which has been received in this case since 1941 that concerns itself with events since 1941 is our offer of proof, which was filed in June, 1948, the early part of the critical pendente lite period here in suit.

If that proferred proof had been taken as true, which the court did, I am quite clear, in nevertheless sustaining the Government's motion for summary judgment, then that offer of proof is the first evidence of purge and certainly cannot be said to furnish any additional evidence of misuse [fol. 1884] or continued misuse during the post-1941 period. It supports our claim of purge to the very fullest extent, and having been accepted as true, shows that we not only abandoned all price-fixing, but that we did not do any of the other things which the final decree has enjoined us in this theory of expanded relief being justified, nevertheless, even though the claimed violation was a narrow one.

And finally, the petitions here, and our answers to the petitions which were filed in this court in 1953, themselves raise material issues of fact with relation to our contention of purge, and of course no evidence has been taken with respect to those issues and we therefore earnestly urge that it is unfair and inequitable and an error of law to deprive us of our day in court by undertaking to determine the purge issue a factual determination against us, without a consideration of all of the pertinent evidence.

Now when we proceeded to argue this purge matter originally, and to consider the various legal questions which we thought were involved, we were careful not to waive our right to introduce evidence on these factual issues which have been joined herein, and in presenting the legal points as we did, we contended that there were facts already of rec-

ord in the case which might very well constitute evidence of purge at a time prior to May 15, 1951 and they might be sufficient not only to preclude a conclusion against us, as a matter of law, but even to resolve the purge issues in [fol. 1885] our favor. And we discussed then five, let me say, such facts in brief and argument, making always the express reservation that they were only illustrative, and were not the only or the exclusive facts of purge which could be shown.

The purpose of this reservations was to make it clear that reference was made only to matters of record and not to other matters of fact raised by the 1953 petitions and our answers.

We did not submit or intend to submit those five points as the only evidence which could or would be offered on an actual trial of that particular issue. Whether or not it would even be before the court was conditioned upon this court's decision with respect to its jurisdiction to hear the matters raised by the 1953 petitions.

But we submit that the court's treatment of these five points as the only evidence of purge, has brought about an inequitable result: First, what has heretofore been said by Mr. Spray about this court's decree of November 7, 1949, will show the error arising I believe from the court's treatment of that subject. Actually, this claim of purge, I suggest, is missed entirely in this court's discussion of it and is also missed in the finding made with respect to it, because it was our contention that as a matter of law, that decree in itself effected a purge of any misuse of patents because in that decree of November 9, 1949, there was an ad- [fol. 1886] judication that the old licenses were illegal, null and void, and there was an express injunction against their performance or enforcement, and this court itself in conclusion number 7, found that Article 4 of the November 7, 1949 decree, nullified completely, and I am quoting: "The license agreements referred to in that decree."

What we were saying in this connection was that it was the effect of that decree away back in November, 1949, and not the incidental fact that we had decided not to appeal from it, that was relied upon by us for a claim as a matter of law, that there was a purge as of at least November 7, 1949, because if the very same law decree of May 19, 1951

is admitted by these defendents, as I think they must admit, to constitute a complete purge, why does not the same result follow from the almost equally effective decree of November 7, 1949.

The law, I think, is reasonably clear that generally speaking, the entry of a decree of the court constitute- an effective purge in the absence of the showing of other circumstances negating that inference.

Rather than to actually meet this contention of ours, I submit to your Honors respectfully, that your opinion discusses only the supposed point that we claim purge because we had decided not to appeal from that decree. That argument was only made in answer to the claim in Certain-Teed's [fol. 1887] brief that the November 7, 1949 decree did not constitute a purge because we did appeal from it.

We submit that to be consistent with the court's recognition of that decree of November 7, 1949, as an effective nullification of the old license agreements, this court could find and should have found that there was a purge of any prior patent misuse at least by November 7, 1949.

And this is particularly true because not even up to the present day has anyone suggested that that decree was violated by us, in the slightest degree or to any extent whatsoever.

Now secondly, we also feel that there was error in the court's treatment of our repeated offers to these defendents of licenses in 1949, prior and contemporaneous with the decree of November, 1949, and we submit earnestly that the licenses which we thus offered them in 1949 were untainted by any improper provisions so far as any patent misuse is concerned.

The forms of licenses which we submitted to these licensees, these co-defendants, in early 1949, and which were offered in open court and filed with the court by June 14, 1949 at that hearing, and which were again filed with the court the next month in July, 1949, in slightly revised form, were all substantially the same as those which this court approved specifically in its November 7, 1949 decree.

There was little material difference from the form of the 1949 approved license and the form of license approved by [fol. 1888] the 1951 decree. What I mean to say is this: Those forms we submitted in 1949 were substantially the

same as the ones which were finally approved in '51, so that I say that we have a consistent record, starting before the November, 1949 decree and way back at the beginning of the year 1949, and running through the summer, and at the decree of November, 1949, and then again at the end of the final decree in 1951, of repeated offers of licenses all in substantially the same form.

Now what was the difference, if any, between the '49 licenses which I have been talking about and the ones that were approved in 1951 and which Certain-Teed and National actually took, but which Ebsary and Newark refused to take. The only point of difference, I think, between those two sets, the only points of difference were as follows: In the 1949 licenses, it was provided that the verification of the accuracy of the licensees' royalty reports which, of course, all license forms require, was to be made by an independent auditor or a person acceptable to both parties who should report only the amount of royalty due.

In the 1949 licenses, we provided that the licensees should make a full report to us of how many feet they sold, and what their prices were, and the court and I think properly so, provided that that information did not need to be disclosed to us and should not be disclosed to us, and if we [fol. 1889] could agree upon an independent auditor, he could make all necessary examinations and satisfy himself as to those facts, but it ought to fully satisfy us if he certified the ultimate amount due without the business details behind that amount of royalty that he thus determined.

Now in that respect, the '51 license was modified from the 1949, and that also meant that the licensee did not have to report his intimate information about the kinds of board that he made and the thickness and the size and the price.

I believe, however, those were the only differences between the 1949 and 1951 licenses, and I cannot see that those differences have any impact on the effectiveness of the dissipation of the patent misuse which is inherent in the offer of unobjectionable licenses.

We contend in this connection that the refusal of all of these four defendants, National, Certain-Teed, Newark and Ebsary to accept those licenses thus offered to them in

1949, should not now operate to deprive us of the purging effect which is inherent in the '49 offer to all of them.

In denying our claim of purge, this court states that the Supreme Court had found that the definition of Gypsum board and the time limit for applying for the new licenses was too restrictive in the November 7, 1949 decree. But that again, I submit, has nothing whatever to do with the purging effect of our offers to grant these people licenses, which, by their terms, gave these defendents the right to use all of our patents, upon terms and conditions [fol. 1890] wholly unobjectionable so far as the antitrust laws were concerned. Nor is there any merit finally in your Honors' observations that the decree which we submitted provided that the old license agreement should be cancelled upon the entry of the decree. That was a provision that was in the decree filed by the Government, and in the forms of decrees filed or adopted by the licensees and was merely an appropriate way to take formal action to wipe out the last vestige of the old license agreements.

Now our third point of purge involved what we contended was an abandonment of the old license agreements by all the parties following the first Supreme Court opinion in March, 1948. The petitions here of 1953 and our answers to them, which we filed here in '53, all joined issues of fact as to this point of abandonment, and I don't believe that point can possibly be disposed of without the taking of evidence.

We averred that it was understood by all of us, that the old license agreements should be abandoned. Similar factual issues are joined in our infringement suits in count 3 of those suits against these defendants, and the answers to the count 3 allegations of abandonment, in the Iowa suits against National and Certain-Teed, raise and create factual issues with respect to that contention, and I think the court erred in determining that question against us, without the taking of any evidence with respect to those allegations.

[fol. 1891] I think we are entitled to our day in court on that important issue as well as others, and it certainly should not be determined on counsel's mere statement here that the first Supreme Court opinion came as an unexpected shock to the industry and every one stopped in their tracks

and took no further action under the licenses, that they were just in status quo.

Nor could that factual issue be disposed of as the court appears to do in its opinion by saying that in the 1949 licenses, various parties were suggesting that the old license agreements be formally and finally disposed of by a provision in the decree for their formal cancellation.

Now fourthly, I think the court erred in rejecting our contention that if the November 7, 1949 decree did not accomplish a complete purge, then the May 29, 1950 Supreme Court injunctive order accomplished a complete purge.

The fact of the matter is that by this injunction, by the Supreme Court, it was intended to, and did, operate as an effective bar to all further misuse of our patents pendente lite, and unless it was violated, it was clearly evidence of purge—no one says it was violated, at any time. It really stands, to my way of thinking, on no different basis from the decree of 1949 or the decree of 1951. We have three decrees, one of them a Supreme Court decree, all [fol. 1892] enjoining us against complete misuse of our patents, the one in November, 1949, one in May, 1950 and the final one in May, 1951.

Now, fifthly, although this court concludes that the licenses had not been used for price fixing since 1941, it reject- that as evidence of purge because it says we retained the right to fix prices in the agreements nevertheless, and that we had that right at all times subsequent to 1941.

I cannot see the effect upon the question of purge of that unexercised right and nobody says we ever exercised it, directly or indirectly or made any attempt ever to do so, and that we had not sought to exercise it for a period of seven or eight years before the pendente lite period here in suit, and we, of course, did not attempt to exercise that right to fix prices at any time during the pendente lite period from March, 1948 to May, 1951.

Finally, we submit that the court's rejection of the purge facts of record is further erroneous in that it ignores their cumulative effect. This court has permitted these co-conspirators free use of our patents for a three year period, notwithstanding the fact that we have an eight or ten year period of non-use of any price fixing provisions, notwith-

standing the fact that we allege that the licenses, the old licenses were expressly abandoned by the parties, notwithstanding that we have repeatedly offered legally unobjectionable licenses to these people, and notwithstanding that [fol. 1893] we have been effectively enjoined during the major part of that period by court order, which no one says we ever violated.

Assuming for the sake of argument that these facts do not establish purge as a matter of law, as the court concludes, they are certainly sufficient when taken with the other facts put in issue by the 1953 petitions and answers, to prevent a summary judgment of non-purge which is just what this court's ruling amounts to. And in that respect, I believe it to be erroneous.

Now if we are correct in our contention that the continuing misuse ruling and the ruling without the taking of evidence that we have not purged our patent misuse, are wrong, then it follows, I believe, in so far as the findings, and conclusions and decree which were entered last December 9th are concerned, that they are wrong and should be set aside.

The automatic effect of such action would be to re-establish U.S.G.'s right to proceed on count 4 of the pending suits against these defendants. Count 4, it will be recalled, is the one which seeks a quantum meruit recovery, for this court, in its opinion, has held that count 4, and I quote: "is proper and prosecution thereof should not be enjoined unless U.S.G. is barred by unpurged misuse of its patents."

So that I say, if the continued misuse ruling should turn out to be wrong and the purge ruling should turn out to be wrong, then under the court's decision, our right to proceed [fol. 1894] on count 4 for a quantum meruit automatically re-establishes itself. But further and beyond that, such a ruling as to misuse and purge would also have the effect of automatically re-establishing count 3 of the respective suits, and the theory of that count, as we have repeatedly stated here, is, namely, that it sought a quantum meruit recovery for the actual use of our patents under circumstances from which the law would imply an agreement to pay.

In this connection, it should be borne in mind, I submit, that we contend that the court has erroneously ruled that

count 3 in the pending suits is an action based on an express contract designed to recover indirectly the royalties provided for in the illegal license agreements.

On the basis of that finding, this court concludes that count 3 is but a suit upon an express contract which should be enjoined as a left-handed way of recovering under the old license agreements.

In this finding and conclusion, the court overlooks the fact, I respectfully submit, that count 3 expressly avers the rescision of the old license agreements, and seeks recovery for the use of the patents after such rescision and therefore for a period not covered in any way by the old license agreements.

Similarly, we have shown, I submit, that the court has misunderstood and misconstrued the ruling of the Supreme [fol. 1895] Court in the Hartford Empire case in deciding that it was a specific precedent, indeed, here a controlling guide for holding that there could be no recovery for infringement of U.S.G.'s patents pendente lite.

Since the determination that U.S.G. should be enjoined from prosecuting its infringement suits is based upon this erroneous conception, it is likewise unsupportable that in so far as the findings, conclusions and decree of last December 9 are based upon it, they should be set aside.

No reason has been suggested that I am aware of why U.S.G. should be denied any compensation for the use of its patents pending the litigation, whereas Hartford should be permitted to recover a large part of $7 million from its co-conspirator licensees for their operations under the condemned licenses during a corresponding period.

Now, in conclusion, I should like to say a word about jurisdiction: We urge very earnestly that this court is without jurisdiction to encumber this public action with an adjudication of purely private controversy between co-defendants.

This injunction suit, brought by the United States, as Mr. Spray has said, is to protect the public interest. It is not a private action. The decree which was entered was intended to protect and did protect the public interest against further antitrust violations. No suggestion has been made by anyone that it did not fully accomplish that purpose. Yet [fol. 1896] the court has been persuaded to amend the de-

cree, not for the protection of the public, I submit, but solely to adjudicate issues of a private, selfish nature.

The underlying principle in public suits of course, as we all know, differs from those of private suits. Private parties should not be able to encumber a public suit with private issues any more than a private suit should in any way foreclose the Government from its right to an injunction in the subsequently brought public action.

This was held, I think, during the past year, by the Supreme Court in the Borden case, where it was held that the fact that an injunction had been entered in a private suit, could not in any way foreclose the Government from seeking an injunction in the public interest.

It is conceded by this court in its opinion and in its conclusion number 7, that the matter of our right to compensation for use of our patents on a quantum meruit or infringement theory was not expressly or implicitly covered by the final decree of May 15, 1951.

There can be no question but that there was no issue joined as between the co-conspirator defendants on which such an adjudication could have been made in the final decree. Therefore, we think that clearly the court has moved outside of the basic purpose of the decree by its amendment of last December 9th.

[fol. 1897] This, I submit, respectfully, even by the standard accepted by the majority opinion, is beyond this court's jurisdiction. Certainly, it can not be justified under article 10 as a move to construe, carry out or enforce the decree. Nor is it, I submit, within the inherent power of this court, to enforce its decree since that power is confined to effectuating the basic purpose of the decree.

Congress has designated the Attorney General as the protector of the public, the Department has been vigorous, as Mr. Spray has said. It now comes here after full consideration of the matter and states that it takes no position as to whether the decree in any way serves to bar our quantum meruit or infringement claims, and it takes no position one way or the other as to whether these claims should be enjoined.

As Judge Cole stated in his minority opinion, this position, and I quote, "by inference, at least, suggests that it is

beyond the scope of the decree handed down in these proceedings."

There can be little doubt that the defendent petitioners in this case are not acting in the public interest or with that primarily in mind. They are motivated by private interests in that they are trying to avoid payment of compensation for the actual use which they have made of our product, and we submit that in thus ignoring the position of the public interest in the suit brought by the Attorney General and [fol. 1898] in so permitting the decree to be turned to the private benefit of these defendant petitioners, jurisdiction has been exceeded.

I do not believe the Terminal Railroad case, cited in the opinion, supports that assumption of jurisdiction. On the contrary, I think it requires an opposite conclusion, for it was there expressly held that a decree will not be expanded by implication or intendment beyond the meaning of its terms when read in the light of the issues and the purpose for which the suit was brought.

And likewise, as Mr. Spray has pointed out, the Missouri-Kansas Pipeline or the Columbia Gas case, is apparently an authority relied upon by the majority in assuming jurisdiction. That case, however, has been pushed beyond its jurisdiction for there Panhandle was not a co-conspirator, but was rather a victim and had express authority under the consent decree to intervene if it deemed it necessary to secure preservation of its protection which the decree provided.

And this is certainly a far cry for what has been permitted in this case, and we respectfully submit that on the matter of jurisdiction, the position of Judge Cole is correct, and should be adhered to.

Judge Stone: For the information of counsel for the United States Gypsum Company, you have consumed about two hours and twenty minutes.

Gentlemen, who represents the opposition; Judge Rosenman?

[fol. 1899] ARGUMENT ON BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman:

Mr. Rosenman: My name, if your Honors please, is Samuel I. Rosenman. I speak for the National Gypsum Company, one of the petitioners, and I shall, by consent of counsel for the other petitioners, present the major argument. Each of them, however, being represented by separate counsel desires to make a separate argument through their own counsel, through its own counsel.

Fifteen months ago, your Honors and the counsel here sat in this Court Room and listened to the arguments as to why the petitions filed herein should not be granted. Your Honors carefully considered those arguments for a period exceeding six months.

Thereafter, your Honors wrote exhaustive, complete opinions on all of the points raised by the petitioners and by the respondents. That opinion, Sirs, is here for re-argument. We had expected that in the briefs filed by the U. S. Gypsum Company or in the arguments here presented, something new would be presented to your Honors which might induce your Honors to change your minds.

As we read the briefs of U.S. Gypsum, as we listened to its oral arguments, we are convinced that with the exception, perhaps, of at most two points, nothing new has been presented to your Honors; the same arguments which were made fifteen months ago are repeated.

Fifteen months ago U.S. Gypsum said your Honors could [fol. 1900] not grant these petitions and now they say your Honors were in error in granting the petitions.

With the exception of two points, which do nothing to the essence or basic ruling of your Honors' opinion, as I shall endeavor to demonstrate, nothing new has been added here to what was said fifteen months ago, and to my astonishment, Sirs, not only has nothing new been added here to what was said fifteen months ago, but comparatively nothing new is added here to what was urged before the District Court in 1949, six years ago.

Fundamentally, the basis of the argument here presented still is, as it was fifteen months ago and as it was six years ago, that the illegality here consists of the price-fixing pro-

visions of the license agreements, and since 1949, the decree declared them null and void, there was a complete purge, that there was no misuse after 1949, because everything was cleared up in 1949.

There is here the repetition of what was urged upon this District Court in 1949, "that the only thing of which we have been guilty is to follow the General Electric case, and we woke up one day to find that the General Electric case had been changed. And we are now being penalized because the law was changed on us."

Now your Honors have stated in careful, succinct language, which could not be improved upon, what the misuse was here, and what the illegality was here. It was not the [fol. 1901] General Electric case, it was not the price fixing provisions of a license agreement, it was an effort, not only an effort, but a successful effort, on the part of U.S. Gypsum to monopolize and regulate this entire industry, not only by the license agreements, but by a series of things by which they regimented, monopolized and restrained this entire industry.

And you do it in your Finding No. 5, and I don't think it can be done better or more forcefully. What you said was: "that the Supreme Court determined," "the Supreme Court determined, that U.S.G. had misused its patents to create various unlawful restraints effecting monopolization of the entire gypsum industry. This misuse extended to price regulation, to suppression of related or similar unpatented products, and to the regulation of methods and agencies of distribution. The effective instrumentalities used by U.S.G. were patent license agreements containing various restrictive provisions. Such agreements covered (a) control of prices of patented gypsum board; (b) control or affection of prices of unpatented gypsum products, and (c) control over terms and conditions of sale and distribution thereof."

And in spite of what the Supreme Court had held, what the Supreme Court declare were the operative facts, facts which were determined by indisputable records, in spite of these operative facts which the Supreme Court enumerated, and which your Honors have summarized in Finding 5, [fol. 1902] that prices were fixed in the sale of all kinds of gypsum products, patented and otherwise, that jobbers were

eliminated, that trade practices were standardized, in spite of all that, we still hear the same argument that the only thing that was wrong here was that "we fixed prices, and as soon as we stopped fixing prices, we are entitled to be treated as though the entire misuse has been purged."

And in Judge Bromley's argument, I think he presents the same fundamental error, "that as long as we offered licenses which did not contain price fixing provisions, everything was fine, and we should be allowed to continue to collect," whereas the Supreme Court has held, and this court has given force to it, the Supreme Court has held that you do not, you do not effectuate a purge until all of the evil defects of the misuse have been dissipated, and transferring that determination to this suit, that means that U.S. Gypsum has not purged itself of its misuse, and the misuse will not be disregarded until all of the evil defects, all of the evil effects, which the Supreme Court has enumerated in its opinion, and which this court has summarized in Finding Number 5, have been dissipated so that the industry is brought back to a sound, competitive basis.

Judge Worley: How can they go about proving that?

Mr. Rosenman: Sir?

Judge Worley: How can they go about proving that they have purged themselves of any misuse?

[fol. 1903] Mr. Rosenman: We contend, sir, that they cannot prove in the face of the fact that the Supreme Court considered an appeal from the decree of 1949, which they held was too narrow, and which they broadened so as to contain provisions which I shall enumerate in the course of my argument, that until the decree of 1949 was so broadened by the decree of 1951, as to dissipate the evil effects of the misuse, they cannot, no matter how many witnesses they call, they cannot prove a purge, and that is fundamental to the position that we took and I think to the position which this court took, that the decree of 1949 was too narrow, that it did not dissipate the evil effects of the misuse, and the monopoly,. otherwise the Supreme Court would not have broadened the decree in the way that it did, and what the Supreme Court said was that this decree in effect, that this decree of the District Court of 1949, is not adequate to open up the evil effects of the monopolies and the restraints and "therefore we're going to broaden the

decree in the following respects in order to effectuate a complete wiping out of the monopoly and unlawful restraint."

Judge Worley: Did that action wipe it out?

Mr. Rosenman: We contend, sir, that at least in 1951—at least not before 1951, the decree of May 15, 1951, was this industry completely opened up and freed of the restraints which U.S. Gypsum had imposed upon it. Otherwise, the Supreme Court would not have broadened and liberalized [fol. 1904] the decree of May 15—June 1949. And that is why I stated that at least until the decree of May 15, 1951, the Supreme Court was not satisfied that enough had been done to open up this industry, and it is not enough, it is not enough, for the malefactor in a patent misuse case, to come forward and say, "Now that the ill effects of what I have done have been exposed, I can purge myself merely by coming in and offering you some new licenses."

In the first place, the Supreme Court said that those licenses are not broad enough in very important respects. In the second place, the Supreme Court said, "in addition to the licenses there are certain affirmative acts which you must take, and until you take those affirmative acts, and those affirmative acts are set forth in the decree of 1951, until you take those affirmative actions, there has been no purge of the misuse," and the important thing here is that until those actual steps were taken, and until the Supreme Court laid them down in the decree of 1951, U.S. Gypsum, no matter how many witnesses it calls, cannot prove that the ill effects of its misuse have been dissipated.

Judge Worley: Have they taken those steps into the Supreme Court laid down in 1951 and in this decree of 1951?

Mr. Rosenman: So far as we know, outside of the bringing of this suit, which I will come to, what your Honors have called a continued misuse, so far as we know, and we make no claim to the contrary, that the decree of 1951 of [fol. 1905] this court has been complied with.

Judge Worley: Does your company operate under a license from U.S.G.?

Mr. Rosenman: Yes. Pursuant to that decree, we took a license in 1951, and we have been operating under that license and we have been paying our royalties.

Judge Worley: Does Ebsary do the same?

Mr. Rosenman: Ebsary and Newark did not take licenses.

Judge Worley: Do they use the license without compensation?

Mr. Rosenman: Sir?

Judge Worley: Do Ebsary and the other company use the licenses without compensation?

Mr. Rosenman: I would rather have them answer that themselves. But my answer to your Honor is that they have claimed that they are not using this patent. They claim that they use another patent, and that they are not using the patent on which they are being sued. We make no such contention. We have taken a license and are using the patent and are using this patent on which they are claiming for the pre-decree period.

Judge Worley: Pardon me for interrupting your argument I just wanted to get that straight.

Mr. Rosenman: As I say, fully 95 percent of the arguments presented here this morning have been gone over and these are essentially a rehash of them.

[fol. 1906] We believe that your Honors were right in your decision of last December. We are convinced that with the exception of two points which I shall wish to discuss, nothing new has been presented here to suggest to your Honors that your conclusions should be changed, and I should add that the two points which I wish to discuss are really not basic to your Honors' conclusions. We think that your Honors' conclusions here are basically unassailable, and that the arguments, the two new arguments which have been advanced, we think, one, are not valid, and two, even if they are valid, would not affect the validity of your Honors' conclusion.

Now what is the basic ruling of your Honors' opinion which we contend is completely unassailable? It is, first, that counts one and two, which have been—which are based expressly upon license agreements, which have been held after years of litigation to be illegal, null and void, that those counts must be dismissed. I don't even think that U.S. Gypsum here is seriously contending that that was an error.

The second basic ruling which your Honors have made is that on this record, on the printed record, it is incontrovertibly true that U.S. Gypsum misused its patents in that

it did not and could not purge its misuse at least prior to the final decree of May, 1951, and therefore, your Honors' conclusion is that all claims of Gypsum, U.S. Gypsum, the contract claims, the indebitatus assumpsit claims, the quantum meruit claims and the infringement claims, are all [fol. 1907] barred for at least the pre-decree period, based upon this misuse, and then your Honors went forward and adopted the contention which we made that the very bringing of an action, based not only upon infringement or an alleged infringement, but based upon claims, upon agreements which the Supreme Court and this court had solemnly declared to be null and void and illegal, that the bringing of claims on those counts constitute a continuing misuse, constitute a continuing attitude on the part of U.S.G. that the only thing that was wrong, the only thing that they were wrong in, was trying to fix prices, and that they can still, they can still, claim royalties and sue for royalties on an express agreement which this court and the Supreme Court have twice declared to be illegal, null and void.

Now I contend that these findings and these conclusions which your Honors have made are completely unassailable.

Now one of the things which U.S.G. here presents which goes to this basic ruling and it is not anything new because they argued it at great length in their briefs and before your Honors orally, is that they should be permitted to show a purge, because purge is essentially a question of fact.

Now they did not take that position exactly fifteen months ago. They went much further. They said that "the facts which we want to present to your Honors and which we do hereby present to your Honors, not only raise questions of fact, but as a matter of law, as a matter of law, on which no [fol. 1908] hearing is necessary, we contend that they show a purge as a matter of law." Now they were so wrong in that, they were so wrong in that that your Honors held exactly to the contrary, "that not only do these facts not show purge as a matter of law, but that even if you urged them as a question of fact, the record is so clear to the contrary, the record facts which are indisputable, are so clear to the contrary, that we should not even waste the time of having a hearing on the question of purge, because no

matter what you prove through your witnesses, the law is, the law is, that you cannot have any purge, at least before the decree of this court based upon the second appeal to the Supreme Court of May 15, 1951, and we go further and say that your continuing misuse as of today is, as a matter of law, unpurged because these suits are still on the docket in Iowa, and therefore, as a matter of law, you have not purged yourselves even as of today."

Now of course purge is a question of fact, just the same as a great many things are questions of fact, and yet the law books are full of cases which say that on incontrovertible record facts there can be no issue of fact here, otherwise why do we have the remedy of summary judgment, which says that although the question here may be issues of fact, the facts of this case, the incontrovertible facts of record, are so clear that it would be useless to have a hearing because no matter what witnesses you called in, [fol. 1909] you could not dispute the incontrovertible questions of fact, and that is exactly what this court did, sirs, in 1949, when it granted summary judgment, and it is what the Supreme Court did, when it sustained the summary judgment.

Judge Bromley came in and said, "We want to prove certain things here. We have Mr. Avery here. We want him to take the stand and deny certain things", and this court said, "How can you deny things which are clearly a matter of record here", and the Supreme Court said that the underlying facts here are such that no matter what you come in and try to prove," the fact is that you were guilty of misuse, and therefore we won't waste the time of the court or of counsel or of witnesses by having a useless hearing." That is what they held about the defenses of U.S. Gypsum back in 1949 and that is exactly what your Honors have held with respect to the claim of purge here, and I think it is a very sound conclusion, and there is no use having a trial to prove things which would be wholly immaterial in the face of what has become a part of the record and which cannot be denied.

Now Finding 22 of your Honors' findings and conclusions, discusses these five points that are raised and which the U.S. Gypsum raised as a matter of law determining purge. And what your Honors have held with respect to the fact

that these five items not only do not show purge as a matter of law, but that as a matter of fact, we can say that there [fol. 1910] never has been any purge, seems to me unassailable for the following reasons: After this District Court on November 7, 1949 entered its first decree, and an appeal was taken—now why was the appeal taken? Now why was the appeal taken? The appeal was taken because the Government felt that the decree of 1949 did not adequately open up this industry.

It said that the license agreements are null and void. It said that "you should license them," but here are some of the defects which the Supreme Court found in the decree of 1949.

Your Honors will recall, I am sure, and maybe still have before you this tabular arrangement which we submitted to you showing the articles of the 1949 decree, and the articles of the 1951 decree, and your opinion shows that you have given due consideration to these changes which occurred between 1949 and 1951, pointing out that what was done by the Court in 1949 did not satisfy the Supreme Court, that this industry had been opened up to a competitive basis.

Judge Worley: The appeal of the Supreme Court of '49, the appeal by the Government, did you participate in that proceeding before the Supreme Court?

Mr. Rosenman: No, sir.

Judge Dorley: You did not brief any point discussed by the Supreme Court?

Mr. Rosenman: I, personally?

[fol. 1911] Judge Worley: Yes.

Mr. Rosenman: No, sir.

The decree of 1949, just to point out some of the highlights of the points of difference between the decree of 1949, which Judge Bromley now urges as a purge and the decree of 1951, which we urge was the earliest that there could have been a purge, the decree of 1949 said that patents must be licensed by U.S. Gypsum to the defendant licensees. It said the patents which are now in effect—there were a total of nine patents—now the Supreme Court found that was not sufficient to open up this patent restriction, this patent pool, whatever you want to call it, these restraints, these monopolies, and the Supreme Court said "we are going to extend that decree; we are going to make you open up not

only the patents which you now have, but the patents which you are going to acquire for the next five years, any patents which you get in the next five years, you must offer to the entire industry.

The decree of 1949 said that, "You must only license your patents to someone who comes in within 90 days." The Supreme Court said that does not open up the industry enough, and it said, "We are going to remove this time limit, and we are going to say that for all time hereafter, in order to maintain this competition which we are striving for, you must offer your patents on a royalty basis to anybody, six years from now, ten years from now, not making them come in within 90 days."

[fol. 1912] The third, and this is a very important extension of the 1949 decree, was that although the 1949 decree said that "you must offer a license within 90 days on these few patents of yours," it said nothing about figuring the royalty except that the royalty cannot exceed the amount which you fix in your license agreement.

But what the Supreme Court said was this: "We won't stand for that because you may be asking for too much money. What we will do will be to say that you must offer your licenses for all time to all comers and on all patents that you now own or will own in five years, and you must offer them on a reasonable royalty basis."

And then something which Judge Bromley referred to as very inconsequential, but which the Supreme Court deemed very important, was that the decree of 1949 gave U.S. Gypsum the right to come in and look at my books, and say, and find out what my quantity and price figures were.

Now that was one of the very strong devices by which they maintained restraints and monopolies, and it is not an inconsequential thing. It is very important, and was found to be important as an instrument for maintaining restraints, and so the Supreme Court said "you cannot have that right. We will merely give you the right of inspection through an outside accountant, but the only thing that he can look for is the necessary figures to determine the amount of royalty that is due." And then the decree of [fol. 1913] May 15, 1951 enjoins collecting royalties on all patent-free products.

Now it is our contention, sir, and I think your Honors

sustained that contention, and your decision, I think, is unassailable, that until license agreements were offered by U.S.G. which complied with what the Supreme Court of the United States had said should be contained in license agreements, until that kind of license agreement was offered to the industry, and until they complied with the broadened decree which the Supreme Court entered, which the Supreme Court directed this court to enter on May 15, 1951, the broadened decree which provided for compulsory licenses to everybody on a reasonable royalty basis, a decree which said that "we are going to extend this injunction not only with respect to gypsum board, but with respect to all gypsum products," a decree which also increased the geographical limits from the eastern part of the United States, which is what the decree of 1949 did, increased it to the entire United States, an injunction, a decree which enjoined certain specific practices in addition to price-fixing, the standardization of practices, the exclusion of jobbers, a decree which made clear that there could not be any basing point pricing, until the Supreme Court directed this court, in 1950, and this court in 1951 framed its decree which embodied all these broader provisions, which the Supreme Court said were necessary to open up this industry, free it [fol. 1914] from the shackles of restraint and monopoly, and until that was done, we have urged, and your Honors have agreed with us, that there could not be a purge.

Now that date was May 15, 1951, and the fact that two years before that it is alleged, not proved even yet, but it is alleged, that U.S. Gypsum offered some licenses to these licensees, that they had eliminated the price-fixing provisions, those things, even if proven, could not establish a purge, and your Honors have held as a matter of law, because those license agreements could not have complied and did not comply with the license agreements which the Supreme Court said were necessary, and which this court, your predecessors, this court, said in 1951 was necessary, unless those license agreements complied with those provisions, there could not be a purge.

Now, we argued that fifteen months ago, and the respondents argued to the contrary. Your Honors have adopted our conclusion, and we think that your conclusion is correct, and we think that as a matter of law, there has been

no purge and that it would be useless to have a trial on the issue of whether there is a purge because no matter what they prove, they cannot controvert the fact that the decree of 1949 was appealed from by the Government, that the Supreme Court said that decree is not adequate to open up this industry, "we are going to broaden the decree, we are going to broaden the injunctions," and until that decree was broadened by the Supreme Court and adopted in the [fol. 1915] decree of this court, there cannot be a purge and no purge can be proven and therefore, as a matter of law, there can be no purge, and I should add that this would not be the first time that a court has held as a matter of law, that there is no purge and granted summary judgment on that subject, and in a case which I—a District Court case which I should like to refer to your Honors and which we mention in our brief, with respect to another matter, however, *Schiplets versus June Dairy Products Company,* 89 Federal Supplement, 814, a case in the District Court of New Jersey.

Now in the face of your conclusion that as a matter of law, there can be no purge, they have urged only one new fact which they say they want to prove.

Judge Stone: Pardon me, Judge Rosenman, but before you enter upon that subject, it might be well for us to take a noon recess. The court will adjourn until 2:00 o'clock.

(Whereupon the Court, at 1:05 P.M., did recess until 2:00 P.M.)

[fol. 1916] AFTERNOON SESSION 2. P.M.

Judge Stone: Judge Rosenman?

ARGUMENT ON BEHALF OF NATIONAL GYPSUM COMPANY

By Mr. Rosenman: (resumed)

Mr. Rosenman: At the recess, if your Honors please, we were discussing the question as to whether or not purge could ever be shown prior to the decree of May 15, 1951.

I should like to state to your Honors that in discussing this, I am not discussing what I referred to as two new points which were raised. This whole question of purge was covered in the briefs and covered in the argument fifteen

months ago, so that we contend that this is a rehash of the argument which was had before your Honors.

In this connection, I wish to state that the only new fact which they assert here in connection with the subject of purge is the fact that there was a passage of time and the intervention of a war, and if I am correct in my argument and if your Honors are correct in your conclusion that there could be no purge before the Supreme Court had opened up this industry to competition, the fact that time passed and the fact that there was a war would be wholly immaterial.

In the brief and in the argument this morning, the only fact that I could find which was in any way disputed, in other words, which could possibly call for a trial, would be the fact as to whether or not U.S. Gypsum acquiesced in the [fol. 1917] repudiation of the licenses. In other words, that they might state: "We were willing to repudiate the licenses after the finding of null and void."

But with respect to that, this court considered that claim and disposed of it very forcefully and I submit, very accurately in 22(b) of its findings, where it said, "that the claimed acquiescence of U.S.G. to the repudiation of the illegal agreements by petitioners following the first appeal was one of the grounds urged," and then you point out that, "the record herein does not support the claim that U.S.G. acquiesced in the cessation of payments by the petitioners."

You go on to say in connection with the form of decree to be entered after summary judgment was granted, that is in 1949, U.S.G. not only did not claim that the licenses had been rescinded, but it urged strongly that only the minimum price-fixing provisions were illegal, and that in all other respects the license agreements should be cancelled only as of the date of the decree to be entered.

At that time and thereafter it made clear, U.S.G. made clear, that it expected to have and waived no rights to have compensation for the use of its patents, so as you point out there, the record shows that there was no acquiescence of this repudiation. And here too, even if there had been, which they never can prove took place because the record shows the contrary, but even if there had been, as I tried to [fol. 1918] point out this morning, the Supreme Court said

that that was not enough to dissipate the evil effects of this monopoly.

So that to repeat, with respect to purge, I respectfully urge that this court's conclusion was correct, that not only does the claim of purge made in the briefs and in the argument fail to establish itself as a matter of law, but that in spite of those claims, and on the undisputed record, the law is that at least until the decree of May 15, 1951, there could not possibly be a purge as the law of misuse understands it.

I should like now to pass to one of the new things which is raised by the respondents here, and that is its contentions with respect to the Hartford Empire case.

I should like at the outset to call your Honors' attention to the fact that we have urged the Hartford Empire case as additional authority here for enjoining all forms of enforcement of misused patents prior to the final decree. I should point out further that this court followed us, at least part way, with respect to that contention. But that, even if it had not followed us with respect to that contention in Hartford Empire, there is still enough in this court's findings to justify the conclusion of law and the modification of the decree which it made, because this court relied not only upon the Hartford Empire case, but relied upon at least the three other things, namely, the unpurged misuse before May 15, 1951, which I have talked about. It relied upon [fol. 1919] the continuing misuse, which was—which is the characterization of their conduct, by continuing to seek compensation on illegal, null and void agreements, and on what this court described as the practical and legal situation.

So that even if the court did not adopt the Hartford Empire case, our reasoning and your reasoning in the Hartford Empire case, there is still enough in the findings of fact, and in the conclusions to justify the action which this court has taken.

However, we urge the Hartford Empire case, and this court adopted it, as being the first and the classic statement of what the courts of this land do in a patent situation where there has been a wide misuse of patents resulting in a violation of the antitrust laws, such as the industry concerned here, the industry which we are talking about.

I might point out that if the Hartford Empire case had

never been decided on its own facts, that there are plenty of cases which follow the Hartford Empire case, like the National Lead case and others and we cite some forty or more or less cases of consent decrees where in Government suits defendants have signed consent decrees carrying out the basic teaching of the Hartford Empire case.

What is that basic teaching? For the first time, Hartford Empire announced the doctrine which, as I say, has been followed in many cases since and which is now considered almost as elementary, that where the Government brings an [fol. 1920] anti-trust suit, and the misuse doctrine is applicable, as it is here and as it was in the Hartford Empire case, that there are two remedies, almost orthodox remedies, which are now followed: The first is that the patents which have been the subject of misuse are thrown open to future compulsory licensing. That happened in our case and it is traditional, one of the traditional remedies afforded, where a patent misuse permeates an industry.

The Court says: "From now on you are going to have to license these patents to anybody who wants them on a reasonable royalty basis."

And the second traditional remedy is that, "We will prevent you by injunction, we will prevent you, who have misused your patent privileges, we will prevent you by injunction from enforcing your patent rights until such time as the evil effects of the misuse have been fully dissipated."

Now, this means, as the Hartford Empire case said, and as many other cases have said since, that until a final decree is entered which dissipates the restraint, "You cannot enforce the misused patents." And once the restraint has been dissipated, then, of course, "You can enforce your patents, and you can obtain compensation, but it must be on a reasonable basis, and you must offer it to everybody in the industry."

That is all that we claim that the first Hartford Empire opinion said, and the first Hartford Empire opinion was very clear and specific as we set out at page 44 of our main [fol. 1921] brief, and if your Honors will indulge me, I would like to read what we consider, and what I think your Honors have considered, as the basic teaching of the Hartford Empire case. We think it is controlling here, and it has been followed in many similar cases since.

It said that: "Hartford and the other corporate defendants mentioned in Paragraph 24 should be required to lease or license glass making machinery of the classes each now manufactures to any who may desire to take licenses under patents on such machinery or on improvements, methods or processes applicable thereto at standard royalties, and without discrimination or restriction, and if at the time of entry of the decree, there are any alleged infringers who are willing to take such licenses, they should be released, and the patent owner be deprived of all damages and profits which it might have claimed for past infringement."

Now that is the basic teaching of the Hartford Empire case, and it has been repeated in National Lead and many other cases since.

That basic conclusion of the first Hartford Empire case was not modified, it was not modified, by the second Hartford Empire opinion.

Judge Bromley has very eloquently talked about our Anglo-Saxon system of law which prevents the taking of private property without compensation.

[fol. 1922] There are exceptions to that, and one of the exceptions, which has now become almost standard, is this exception which was enumerated in the Hartford Empire case, and which your Honors considered, which your Honors followed, and which has been followed by many cases, namely, that as we argued before your Honors fifteen months, that the privilege of a patent is a peculiar kind of property, that when the Government gives you a patent, the Government gives you a monopoly, it gives you the right to do many things which a non-patent owner cannot do with his property. But this misuse doctrine is very clear, and it means that if you misuse this very unusual kind of property, if you go beyond the monopoly limits which the law allows you, as a patent owner, and if you use it for an ulterior, illegal purpose, then certain things happen to you, namely, that during the time that you use this to acquire further monopoly, to promote further restraints, that while you do this, we will prevent you from enjoying the fruits of your patent. We will not let you sue people who infringe upon the patent, and we will prevent you from doing that until such time as you not only reform yourself, but until such time as the industry which you have bound up in un-

lawful restraints is permitted to free itself from the shackles of those restraints.

Now this doctrine was first announced as among private litigants in the Morton Salt case, and it was announced in the Hartford Empire case for the first time in Govern- [fol. 1923] ment suits as distinguished from suits between individuals, as the Morton Salt case was.

But it is a doctrine which has become a firm part of our jurisprudence, and the Hartford Empire case announced it first, other cases have followed it, and what the respondent is seeking to do here is to seize upon some language and holding in the second Hartford Empire case, and claim that in some way it modified the holding in the first case, to their advantage.

It is our contention, and they urge this for the first time, it is our contention, that no such result obtained, that the second Hartford Empire case has nothing to do with the basic teaching that a misuse of a patent gives rise to these orthodox remedies of compulsory, reasonable royalty licensing, and a refusal to permit enforcement of the patent during the period of misuse.

However, in the Hartford Empire case, there was a situation which with the limit of time at my command has failed to disclose a duplicate of, namely, there were two situations in the Hartford Empire case which are different from our case, and I think one of them is almost unique in the Hartford Empire case, although as I say, I have not had time to look at all of the anti-trust cases to establish that.

But I think what is unique is that a receiver had been appointed pendente lite, and the receiver, of course, stood in the shoes of Hartford Empire itself. The receiver had [fol. 1924] been appointed to operate the business and the reason the court appointed a receiver was that the restraint was so bad that it thought that in order to carry out its decree, the presence of a receiver would be necessary.

Now one of the jobs of a receiver of a business is to pay its debts, to collect the monies which it claims is due it, and to carry on the general management of the business, and in the general management of the business, this receiver had asked and received royalties.

Now the royalties were not only for the use of patents,

the so-called royalties were due to the Hartford Empire and to the receiver by reason of license agreements which did a number of things: The license agreements which the Hartford Empire Company used to issue provided that: "We will collect royalties from you for the following: One, we license you to use our patents; two, we are going to lease to you certain machinery which is necessary in the manufacturing of glass containers and other glass products; and three, any time this machinery fails to operate, you call us and we will come around and repair it, we will perform services on this machinery.

So the license agreements which we are talking about in the Hartford Empire case are not like the license agreements in U.S. Gypsum which merely license the use of patents.

In the Hartford Empire case they licensed the patents, they leased the machinery, and they performed services on the machinery.

[fol. 1925] Now the receiver came along and said, " I would like to collect under our agreements. You owe us some money for our patents and for our machinery and for the services which we have performed," and by and large the licensees said, "All right," and they paid and they paid the receiver what they were obligated to do under the license agreements.

These payments were for these three things, the patent rights, the machinery rentals, and the services performed.

Now that is the first very fundamental difference between the Hartford Empire case and the U.S. Gypsum case. In the U.S. Gypsum case we did not pay licenses for these agreements because these agreements had been declared null and void; in the Hartford Empire case, the licensees did pay.

Now there is a vast difference in a situation where, if we had paid these fees and were here now asking your Honors to direct U.S. Gypsum to return them to us, there is a vast difference between that situation, and the situation where we refused to pay the fees because the agreements had been called illegal, null and void, and U.S. Gypsum comes into Iowa and says, "We want you to pay the fees irrespective of the declaration of nullity."

In other words, it is elementary that if two parties are parties to an illegal agreement, and they continue to make

payments, under it, that one party cannot sue to get it back. That was the situation in Hartford Empire.

[fol. 1926] And the situation where two parties are operating under an agreement held illegal, and one wants to sue to get royalties under that illegal agreement, and the courts say, just as this court said, "This is an illegal agreement, it has been adjudicated illegal, and therefore, we will not help you enforce it."

That is quite a different thing from saying to someone who has paid under it, "We not only will prevent further collections under it, but we are going to give you the right to get back these payments which you voluntarily made under this illegal agreement."

Now in Hartford Empire, the payments had already been made, and they were made pendente lite.

Now the first Hartford Empire case said, as your Honors quoted from it in your conclusions and in your opinion, the first Hartford Empire case said, "Now these payments which you have made to the receiver, we are going to abolish the receivership and remove him from office because we don't think he is necessary anymore, but these monies which the receiver has in his pocket, and which you have voluntarily paid to the receiver or to Hartford, because they are the same entity, these payments which you have made, we are going to let Hartford keep."

Now the Government realized that that was a harsh rule on these licensees, who were paying at least part of royalties on misused patents, so they came to the Supreme Court and said, "We would like to get a re-argument, and reconsid-

[fol. 1927] eration of this because we are sure that some of these licensees made these voluntary payments because there was a court officer there, a receiver, on the assumption that if these licenses were held illegal, that they might get it back, and therefore we think it is unfair to these licensees to say that because they made a voluntary payment which would ordinarily bar them from recovering this money, we think it is unfair in view of the fact that a court officer was there, and because the court had said that if these decrees are affirmed that, you will get your money back, and because of that we think it is unfair and therefore we think you ought to change your ruling with respect to this money.' "

And the Supreme Court said, "We agree with you, and,

therefore, what we will do with this money is to say that if a man wants to continue to be a licensee, why let Hartford Empire keep this money, but if he does not want to be a licensee, if he wants to repudiate it, then this money should be returned to him.

And they said something further which is very pertinent. They said that any lessee who has not paid, any leasee of machinery and any lessee of a patent, licensee of a patent, who has not paid, need not pay, which is exactly what we claim here, that any licensee of a misused patent need not pay until the license, until the evil effects of the misuse have been dissipated.

[fol. 1928] Now, on remand of this to the District Court with these instructions—I think I misspoke myself where I said that if they did not take the license, they need not pay; what the court said was, "If you don't take a license, if you want to repudiate the license, you may litigate the question as to whether you get your money back or not."

And this remand went back to the District Court. At the time it considered the formulation of the decree, a great many licensees intervened, and the decree itself, the formulation of the decree, took a very long time. It is a very long decree. This is it. This is the judgment in the Hartford Empire case, and this was what is known as a negotiated decree. There were many points settled pro and con, and one of the things that was settled was the question as to what should happen to this money, and for a number of reasons, the parties decided that instead of litigating, as the Supreme Court had given them the right to do, instead of litigating whether they should get their money back, and also instead of litigating, in suing Hartford Empire maybe for treble damages, that the parties would get together and settle the entire case with respect to the monies which had already been paid. And so they did get together and formed this decree, and in the decree, as was pointed out here this morning, Hartford was allowed to retain 40 percent of the royalties which the receiver had collected.

Now as a part of that settlement, Hartford lowered its [fol. 1929] future royalties by 50 percent. Now about that 40 percent which Hartford was allowed to retain: nobody knows, and the decree does not make clear, how much of that 40 percent was for the patent rights, how much of that

40 percent was for the use of machinery, and how much of that 40 percent was for services.

Some part of it was undoubtedly for patent rights. But what the Supreme Court had said, the Supreme Court had said nothing about settling this. The Supreme Court had said, "You may litigate the question as to whether you are entitled to recover back even those royalties which you had already paid," but instead of litigating, they settled the case.

Judge Cole: All parties did that?

Mr. Rosenman: All parties settled it. And so far as I know, everybody signed the decree.

The fact is that some of the licensees, or some of the parties who used the patents, who did not want a settlement, some of the parties who used the patents in an unauthorized manner, who did not want to settle, did not pay anything.

They were given what has been called a free ride here. In other words, the people who wanted to get licenses, settled. The people who did not want to get licenses, but who had used the patents without using any of the machinery of Hartford Empire, were allowed what was called here a free ride. They were allowed the privilege of not [fol. 1930] paying for the use of the patents during the predecree period.

Judge Worley: Did the court specifically hold that?

Mr. Rosenman: Sir?

Judge Worley: The court specifically held that?

Mr. Rosenman: The court said that—the Supreme Court did not consider the question of those who were infringers, but the fact is that the decree said in so many words, and I want to hand up to your Honors, if I may, instead of this long, printed volume, of which we only have one copy, three copies of excerpts of Paragraphs 15 and 16 of the decree which dealt with this question of what happens to the money and if your Honors will look at 16(c), you will see that they refrained from seeking recovery and, for the moment, disregard the parentheses, I will come back to that, seeking recovery under patents relating to machinery, and methods used in the manufacture of glassware, before the time of the entry of this judgment, so that the decree as entered, 16(c) stated that anybody except any corporate defendant,

which I will come to, who has used these patents relating to machinery, and methods used in the manufacture of glassware, need not pay for them for any time prior to the entry of this judgment.

And that was in conformity with what the Supreme Court in its first opinion had stated, and what had become orthodox doctrine, namely, that you cannot sue for infringement of a patent which occurred before the final decree.

[fol. 1931] Judge Worley: I don't follow that last language.

Mr. Rosenman: Which one, your Honor?

Judge Worley: You went from——

Mr. Rosenman: 16(c)

Judge Worley: Where did you go from (c) to?

Mr. Rosenman: It starts at the beginning, "The defendants are enjoined from seeking recovery under patents relating to machinery and methods used in the manufacture of glassware now owned or controlled by those defendents for asserted infringements arising out of the use of such machinery before the time of the entry of this judgment."

Now there was an exception made in this decree which Judge Bromley has referred to, and which is contained in 16(c) in the parentheses, "except as against any other corporate defendent."

The Supreme Court said nothing about this in its opinion, said nothing about the fact that corporate defendents would be excluded from this bar of infringement claims. This entire decree was a long, negotiated decree, and there is nothing to show why the parties agreed to this exception. There are a number of reasons which might be suggested, that this was a settlement of possible litigation which other defendents might have started against Hartford Empire. It may be, as appears from some statements in the course of this litigation, that Hartford Empire should be kept alive, because Hartford Empire was the most efficient en-

[fol. 1932] tity in repairing these machines, in keeping them going and leasing the machines and it may be that that was the reason that corporate defendents were excluded.

But certainly there was nothing in the court's opinion which compelled the exclusion of corporate defendents in this general injunction provision.

I might call your Honors' attention to 16(b), which goes

further and does not refer also to everybody who takes a license, including the defendents. 16(b) says that, "Hartford Empire is enjoined from refusing to grant to anyone willing to take a license a release for all claims for damages and profits for the alleged infringement."

In other words, as a part of this negotiated decree, it said that if anybody, including a co-defendent, including a co-defendent, if anybody wants to take a license that they should get a release from all other claims for damages and profits for the alleged infringement. This would seem to include any kind of a cause of action.

Now, I should add, and direct your Honors' attention to the fact that if we are trying to draw a parallel between this case and U.S. Gypsum case, which really is not necessary, that my client did take such a license, and therefore even under the ruling of Hartford Empire, even if he had actually paid, he should get a release for all claims for damages and profits for infringement.

[fol. 1933] So that even under this peculair situation which was given rise to by the fact that a receiver had been appointed, and that payments actually had been made, National Gypsum here would be absolved from the payment of any royalties of any kind until the time of the entry of the decree.

Now U.S. Gypsum makes one point with which we do agree. In this court's opinion, and in this court's conclusions, we think that this court misconstrued one of the items in the Hartford Empire case. But we are astonished to find that U.S. Gypsum is complaining of that because we are the ones who should be complaining.

May I read to your Honors from your Honors' opinion at Page 31, which is what we are talking about. At the bottom of Page 31, the next-to-last paragraph, you quote from the opinion stating: "In view of the modifications required by the opinion of this court, such licensees must pay reasonable rental and service charges on a quantum meruit basis, leaving out of consideration any amounts otherwise payable for the privilege of practicing the patent inventions involved in respect of the machines used in this interim."

Then your Honors go on to say that as a result of that, you conclude that the quantum meruit claim for pre-decree infringement was allowed by the Hartford Empire case,

and therefore should be allowed in this case. The fact is that in the Hartford Empire case, as I pointed out, the facts [fol. 1934] are that the royalty payments were being made not only for the patents, they were being made also for the use of the machinery, and for the payment for services in repairing and servicing the machinery.

And what the second Hartford Empire case was saying is "that so far as the patents are concerned, we are not going to allow a claim for compensation, but we will allow a claim for quantum meruit for the rental of the machines and for the rendering of services."

We think this court, we agree with U.S. Gypsum that this court misconstrued the language to mean that, "We will allow a quantum meruit for the patent, for the use of the patent, as well as for the use of the machinery."

In other words, we think that this court said in misconstruction of what the Hartford Empire case said, that what the Hartford Empire case said was that, "We will not permit a suit for infringement because of the misuse, but we will permit a suit on quantum meruit."

And as a result of that misconstruction, this court said, "We will allow this suit on quantum meruit," although, fortunately, this court went further and said, "We will not even allow a suit on quantum meruit, if in fact there has been a misuse of a patent."

Now when this court said that the Hartford Empire case allowed a suit in quantum meruit, it is we who should complain about that because we urge that the Hartford Empire [fol. 1935] case did not say that, "We would allow a suit in quantum meruit for patents," but said merely, "We will allow a suit in quantum meruit for the rental of the machinery and for the use of our services in repairing the machinery."

So that we are the ones who should be here asking your Honors to correct that statement, because we contend that Hartford Empire forbids any kind of an action, because what it talked about is any action for damages or profits and that Hartford Empire is authority for the proposition that when there has been a widespread misuse of patents, that no form of action is allowed to recover for the use of those patents, and therefore, when your Honors said Hartford Empire did allow a quantum meruit case, a quantum

meruit claim, we should have been in here asking for a re-argument, because in fact, Hartford Empire does not permit a claim upon quantum meruit.

However, the reason that we did not was that your Honors went further and said that even if there is a misuse—even a quantum meruit will not be allowed in the event of a misuse which has not been purged.

The astonishing thing is that in some way which I do not understand, although I have read and re-read the briefs and listened carefully to the argument, U.S. Gypsum seems to make the argument that because this court did make that misconstruction of what the Hartford Empire case held, that by some kind of legerdemain or necromancy, that their conclusion that Hartford Empire forbids an injunction—an [fol. 1936] infringement suit, is also a wrong conclusion. Now there just is no point to that at all. They just cannot sustain that contention.

What this court said was that Hartford Empire forbids an infringement suit. We agree with that. This court said that Hartford Empire does not permit a quantum meruit suit. We disagree with that—which does permit—this court said Hartford Empire does permit a quantum meruit suit. We disagree with that. We respectfully urge Hartford Empire does not allow a quantum meruit suit for the use of the patents any more than it does an infringement suit and therefore, we are the ones who should be here saying we want your Honors to change that, and to say that on the strength of Hartford Empire, neither Count 5, the infringement suit, nor Count 4, the quantum meruit suit, should be permitted.

Judge Cole: I don't quite understand the difference you draw between the use of the patents as compared to the machinery and so forth.

Mr. Rosenman: Well, the use of the patents, what the Supreme Court held was that the patents were being misused, not that the machinery was being misused or that there was any misuse in charging for the rental of machinery or any misuse in charging for services in repairing the machinery.

Judge Worley: But the machinery was covered by the patent, was it not? Was the machinery covered by the patent?

Mr. Rosenman: No, sir, there were patents involved in [fol. 1937] making the machinery, and those patents were misused. There the machinery was actually rented. It was owned by Hartford Empire, and it was rented to the users of the machinery.

Judge Worley: The patents were process or method patents? Is that correct?

Mr. Lewis: Hartford did claim they had process patents covering the machinery. The Government claimed that these patents were invalid and there was a proceeding to determine the validity of many of these basic patents, which came subsequent to this final judgment, but that proceeding too was settled so that the scope of these patents, I don't believe was ever determined in this litigation.

Mr. Rosenman: At any rate, the opinion of this court made it clear that what was being sued on here, what was involved here were royalties for patent use and royalties, as it says in his opinion, for services or for machinery. And what it did was to distinguish between the two. It said that, "We will permit suit for the use of machinery which is owned by Hartford Empire. The machinery which you are using is not owned by you, it is owned by Hartford Empire. You are using it and have used it, and therefore you must pay for the use of that machinery, but what you were paying for the use of patents, what you are paying for the use of patents, you do not have to pay for and we will forbid Hartford Empire for suing you in infringement for the use of the patents. We will not forbid them from suing [fol. 1938] you for the use of the machinery."

Judge Cole: Use of patents would amount to very little without the machinery, would it not?

Mr. Rosenman: Well, it might be very substantial, and we don't know—there is nothing to tell in this decree how much in this settlement, how much was paid for patents as distinguished from how much was paid for the use of the machinary. But for the use of the machinary, the court held, "You were entitled to a quantum meruit on that, whatever a quantum meruit would bring you, but you are not entitled to anything for the use of your patents because your patents were misused in this vast conspiracy for restraint."

Where I think this court misconstrued the holding was that although the language of the Hartford Empire case

indicates that what it was doing was forbidding the infringement suit, but allowing a claim for quantum meruit, not for the patents, but for the services as it says, that in some way the court had said, "We will permit quantum meruit also for the patents," and we think that was an error. We agree with U. S. Gypsum that there was a misconstruction there; that the court was talking about two different things, one is the royalties for patents, and one is the royalties for the use of the machine, and they should be distinguished.

Now, what this court's opinion said was that Hartford Empire permits quantum meruit for the patents as well as [fol. 1939] for the machine, and we think that that is a mistake.

I repeat, we did nothing about it because the court, this court, then went on and said: "However, even as to quantum meruit, if there was a misuse here in the U. S. Gypsum case, if there was a vast misuse which continued at least up to 1951, even quantum meruit will not lie," which is the fourth division of your Honors' opinion.

Mr. Lewis requests that I point out to you that, as long as we are drawing the analogy between U. S. Gypsum and the Hartford Empire, that what we are like here is like the infringers in the Hartford Empire case. We are just using patents; we are not using any machinery. In our case, all that is involved is patents. There is no question of machinery. We are using our own machines. We service our own machines; I am talking about this interim period, this pre-decree period; so that we are like those people in Hartford Empire who used their patents but did not use their machines.

And there were people in the Hartford Empire case who had their own machines but who were using, without paying for, Hartford Empire patents. Those are the people mentioned in 16(c) of this decree, namely, that where they have used—where they have used these patents without using any machinery, and they do not take any license, they are entitled to get this free ride.

And what we are in U. S. Gypsum, according to U. S. Gypsum's claim, is that we have been using their patents as [fol. 1940] infringers, and therefore we have to pay.

Our contention is that under the holding in the Hartford

Empire case, infringers who used only the patents and not the machinery or services had to pay nothing, and we are in that position, that what—the only thing that the Hartford Empire case permitted was a quantum meruit action specifically confined to machinery and to services, and specifically excluding, as it said in its opinion, the claim for patents.

But irrespective of that, the holding in the Hartford Empire case which has been obscured somewhat by this unique situation of a receiver having been appointed and people voluntarily paying their license fees on both patents and machinery, although that situation does not exist in U. S. Gypsum, the primary holding, the primary holding and teaching of Hartford Empire is what this court said it was, that, where there has been a misuse of patents and an industry-wide situation, and where the Government has obtained a decree, that injunctions will lie against enforcement of the patents which took place, enforcement for the use of the patents which took place before the decree.

In other words, anybody who used the patents while they were being misused in antitrust violation by the patentee has a right to continue to use them without paying for them until such time as the evil effects have been dissipated.

That primary teaching of Hartford Empire was the law and still is the law and has been applied in many cases. And [fol. 1941] the fact that fees had been paid, royalties had been paid for the use of patents voluntarily, and that gave rise to a special problem which the Supreme Court had to deal with in the second opinion, should not be allowed to obfuscate the primary teaching of Hartford Empire which this court followed, namely, that where there has been a misuse, the misuser will be enjoined from prosecuting any claim for damages or profits for the use of those patents.

That is what has happened here. We have used those patents for three years, during a period of time when the Supreme Court has held that they were being misused in furtherance of the industry-wide monopoly and restraint, and under the teaching of the Hartford Empire case and many cases which followed it. The doctrine is very clear, as this court here enunciated in its opinion, that there can be no suit for the use of those patents.

The one place where we agree with U. S. Gypsum that this court deviated from the holding or misconstrued the holding in the Hartford Empire case was in construing that opinion as saying that "We will allow a quantum meruit for the patents even though we will not allow an infringement suit."

We urge that what the court said in Hartford Empire was not that. It said that "We will allow a quantum meruit only for the services, and only for the use of the machinery."

But in view of the fact that this court held that even with quantum meruit "We will forbid it if there has been a mis-[fol. 1942] use," we found no reason to complain about what we believed was a mistake in this opinion.

The thing that amazes us is that the other side complains when it is a ruling which is prejudicial to us, because the ruling said, "We will permit quantum meruit to go ahead unless, at least, there is a misuse," and that is a ruling which is prejudicial to us rather than to U. S. Gypsum.

But, as I repeat, in some way U. S. Gypsum tries to spell out the fact that there has been a misconstruction of what the Hartford Empire case meant by quantum meruit; that, therefore, in some way, which I cannot figure, we are also—they are also not barred from the infringement action which Hartford Empire says very clearly they are barred from.

As I said, that is the first new thing which has been raised by U. S. Gypsum in this court. And we think it is wholly devoid of any availability to them. It is something which should avail us and we should be able to say to this court now that we are here, "We ask you to correct this and to say that Hartford Empire not only forbids count five but it also forbids count four, because it says that all claims for damages or profits for the use of a misused patent are to be barred."

The second and the only remaining new thing which has been raised here has been section 271 (d) of the patent law, and it is raised only as a new point in order to contravert what this court has held to be a continuing misuse.

[fol. 1943] This court has held—pardon me, if I may, your Honor, I would like to go back to Hartford Empire for just one minute because there is one additional fact in connec-

tion with the Hartford Empire first opinion, to which I would like to call your attention.

You will recall that Hartford Empire, in its first opinion, said that these license fees should be turned over to Hartford Empire by the receiver unless, since the entry of the decree, there has been some violation of the decree or some further violation of the antitrust laws. Your Honors will recall that in the first opinion in the Hartford Empire case. It said to the receiver, "You turn this money back to Hartford Empire unless there has been some violation by Hartford Empire of the decree."

In connection with that, I would like to recall to your Honors' attention that in your opinion at both pages 16 and 25, you said that "by the bringing of these suits there has been a violation of the decree;" on page 16 of your opinion, and on page 25.

On page 25, for example, "We have hereinbefore determined that they," meaning these actions, "involve violations of the decree as to the first two counts of each." And again in your Honors' opinion, you stated the same thing. "In this situation——" you said, "In this situation we determine that these two counts in all of these suits should be enjoined from further prosecution because they clearly violate the express provisions of article 4."

And you go on—I have not got the exact language here—and state that it also violates the decree, just as you did [fol. 1944] on page 25. So that, even under the Hartford Empire first opinion, which said, "Return these license fees to Hartford unless there has been a violation of the decree in the meantime," even under that the facts in U. S. Gypsum, the facts in this case bring us even within that exception, because your Honors have held twice that there has been a violation of the decree of May 15, 1951, by bringing these actions, and also in conclusion of law Number 7 you have said the same thing, so that you have brought this case clearly within the Hartford Empire case which would say, "You don't even have to pay the license fees back—you would have to pay the license fees back even though they had been paid voluntarily, because by bringing these actions you have violated the decree."

Now, passing to the section 271 (d), this is the second and only remaining doctrine which is new, which is being

submitted to this court at this time, 271 (d) was not urged in the prior briefs or in the prior argument, and we respectfully contend that it is wholly inapposite here and that it has nothing to do with this case.

Your Honors will recall that you held that the bringing of these actions was in itself a continuing misuse, and that, therefore, apart from the other kinds of misuse which have been found, that these people should be enjoined, that U.S.G. should be enjoined on all counts because of the continuing misuse down to date.

[fol. 1945] U.S.G. has cited section 271 (d) of the patent law to show that by bringing these actions there has been no misuse. Section 271 (d) of the patent law says no such thing, and has nothing to do with the kind of situation with which your Honors were dealing with here.

Section 271 (d), and we have traced the legislative history of it in our answering memorandum, was occasioned as a result of some confusion which arose after the Mercoid cases were decided by the Supreme Court. In the Mercoid cases, the situation was that a patentee had a combination patent, and that he misused that patent by making all of his licensees buy one of the components of the machinery covered by the patent, to buy them only from him. He had a competitor who was selling a similar machine to an infringer, and the patentee sued this competitor, claiming that he was a contributory infringer.

Now, he himself was a misuser, and he was suing this contributory infringer, and the court held in the Mercoid case, following the orthodox, traditional doctrine in the Hartford Empire case, that "Because you are misusing your patent, you cannot bring this contributory infringement case." And in the course of the opinion, Mr. Justice Douglas raised the query as to what is left to the doctrine of contributory infringement, and the writers at the patent bar, seizing upon this dictum, began to raise some doubt as to whether or not the whole doctrine of contributory infringement had been dissipated.

[fol. 1946] After much discussion at the bar, and this is all set out in the legislative findings and—in the legislative history which we have set forth in our brief—the patent bar association introduced some legislation to try to cure it and 271 (d) is the result of this legislation.

And 271 (d) is very clear in saying that anyone, any patentee who was otherwise entitled to relief, shall not be deemed to be a misuser solely by the fact that he brought or will bring a contributory infringement action.

In the first place, he must be otherwise entitled to relief, and if he is, the fact that he brings an infringement action, says 271 (d), will not, ipso facto, make him a misuser of the patent. I think that is very sound, and I think that is a salutary rule, but it has nothing to do with what is happening in this case.

What your Honors held was not that the infringement action, it was not that the infringement action is what constituted a misuse, what your Honors held was that the continuing misuse was bringing the action on the illegal license agreements. That that was the misuse, that these license agreements had been held to be null and void, they had been adjudicated to be null and void, and that these plaintiffs, U. S. Gypsum, who in spite of that holding after all of this litigation, said, "in spite of the fact that these have been held to be null and void, we are going to bring action on them anyway," contending that they were still [fol. 1947] legal; your Honors have held, and I submit properly, that this was a continuing misuse.

Now, the fact that they also joined with that an action for infringement certainly cannot make the misuse legal. What 271 (d) says was that if you are otherwise entitled to recover, if you had a valid license agreement and you are entitled to recover under that, the fact that you bring a contributory infringement action should not, per se, make you a misuser. That is perfectly sound. But it does not give rise to the converse, that if you are a misuser by reason of the fact that you are suing on illegal license agreements, which is what this court held, that the mere fact that you add to that an infringement action, immediately absolves you from all the misuse which you committed by bringing counts one and two. This is a complete non sequitur.

In other words, they committed the misuse when they alleged count one and count two. Now, the mere fact that they go further and allege counts three and four and then count five, which happens to be an infringement action, does not permit them to take advantage of the Statute which

says the mere fact that you bring an infringement action does not makes you a misuser.

What made them a misuser here, right down to date, according to your Honors' opinion, was not the infringement action, but the action under counts one and two, which were absolutely void and null and illegal. So that citing 271 (d) avails them nothing because they are misusers here under your Honors' opinion, not because of the infringe-
[fol. 1948] ment suit but because of counts one and two.

Now, in their letters to your Honors——

Judge Cole: Is the legislative history mentioned in this proceeding at all?

Mr. Rosenman: The legislative proceeding is set forth.

Judge Cole: I know. Is there any mention of this proceeding at all in the legislative history?

Mr. Rosenman: U. S. Gypsum, no sir.

Judge Cole: Not before the committees of Congress or any place else?

Mr. Rosenman: No, sir, not that I recall.

Mr. Lewis: We found no reference to it, if your Honor please, to this case.

Judge Cole: Yet it was dated January '53, was it not?

Mr. Rosenman: 'Fifty three, yes, sir. There was no reference to this case, and I don't think that there would be because, in this case, the misuse was not the bringing of the infringement action. As I say, 271 (d) really had nothing to do with this case. It was not the bringing the infringement action which was the misuse here, and besides, at this time, your Honors had not yet written your opinion, pointing out that this was a continuing misuse.

Judge Cole: I can appreciate why it would not be in the legislative history, and yet, having experience with it myself, it is violated the other way very frequently.

[fol. 1949] Mr. Rosenman: Yes, so far as I recall, U. S. Gypsum was not mentioned in the legislative history. This was occasioned by the Mercoid case and by a case which followed the Mercoid case, in which we—and which we mentioned in our brief, the Stroco Products case, which followed Judge Douglas' dictum and said "we won't permit this contributory infringement case."

This was a lower court opinion and, as a result of this, the patent bar association, fearing the law was taking a

turn where infringement cases would be completely outlawed had 271 (d) introduced with a complete revision of the patent law, and it was passed, but it is very clear from the legislative history and from the debates and from the hearings which we quote from in our memorandum, that it was a result of the Mercoid case, and it involved only the contributory infringement suit, and how that has anything to do with what your Honors have held, namely, that an action on an adjudged illegal contract is a misuse, I cannot possibly see.

And certainly this Cole case which they mentioned in their letter to you has nothing to do with it because, in the Cole case, they held there was no misuse by bringing an infringement action because, as the opinion said, there was no monopoly, there was no attempt by Cole—by Hughes, to do any monopolization, but when you come to read that case, you will see that it refers to an earlier case, Kobe against Dempsey, in 198 Federal (2d) 416, in which the court said that law suits had been brought for the sole purpose of [fol. 1950] monopolization of patents, and, therefore, they themselves would be held to be misused because the suits were brought for that purpose. But the Cole case, which is cited by U. S. Gypsum in its letter to you is no authority for the proposition that the mere fact that you add an infringement suit to a suit on an illegal contract absolves you from the misuse which arises from the fact that you have brought your suit on an illegal contract.

I would like to say one or two words, if your Honors please, on the whole subject of quantum meruit, the claims which I think are still confused in U. S. Gypsum's mind involved in counts three and four.

And here, too, what I am saying has nothing to do with your Honors' basic decision, which I repeat is unassailable, that there has been a misuse here and the misuse, as a matter of law, could not be purged before the decree of 1951.

Judge Worley: May I ask you a question there, please? Whether misuse is present is always a question of fact, is it not?

Mr. Rosenman: Yes, sir.

Judge Worley: Whether a patentee misuses?

Mr. Rosenman: Yes, sir.

Judge Worley: And whether he has purged himself of that misuse is likewise a question of fact, is it not?

Mr. Rosenman: Yes, sir.

Judge Worley: Normally, how is that proved, whether [fol. 1951] one has purged himself from abuse or misuse of a patent?

Mr. Rosenman: Well, I think the test is, is not only what the man himself has done about the purge. I think the test is, "Have your affirmative actions, have affirmative actions been taken to dissipate all of the evil effects of the restraint?"

[fol. 1952] Judge Worley: How do you determine the presence or absence of affirmative actions, by what process?

Mr. Rosenman: Well, I would say that in this case it is taken by compliance with the decree of 1951, by the May 15, 1951 compliance.

Judge Worley: The patentee has to prove compliance with the decree.

Mr. Rosenman: That is right.

Judge Worley: By affirmative evidence.

Mr. Rosenman: That is right.

Judge Worley: How is that done?

Mr. Rosenman: Well, he would show, for example, in this decree, he would show that the licenses which he has offered comply with the decree. He would show that all of the injunctive provisions of the decree have been complied with. And I think that would establish a purge.

Judge Worley: On his own motion before what tribunal? Before a District Court, the Supreme Court, or where?

Mr. Rosenman: I think he would do it before this kind of a tribunal, for example, or he would do it, I think it could come up in a number of ways. He issues a license and he sues on a license; if there is a defense he might come and try to get a declaratory judgment. I don't know of any such situations, but he would have to show and I should think the burden of proof would be on him that there has been complete compliance with the final decree of the court, and [fol. 1953] I am repeating myself. I think what this court held was that U. S. Gypsum cannot possibly show, no matter what it produces, compliance with the decree of May 15, 1951 before May 15, 1951.

Judge Worley: What about 1949?

Mr. Rosenman: The 1949 compliance with that decree would not be sufficient, because the Supreme Court held that that decree did not adequately open up this industry.

Judge Worley: As a matter of law, their proffer of proof was insufficient.

Mr. Rosenman: Their proffer of proof——

Judge Worley: Is that correct?

Mr. Rosenman: Their proffer of proof——

Judge Worley: Assuming that to be true, assuming what they offered to prove would be true, then what I understand the Supreme Court held as a matter of law, even that would be insufficient to constitute a purge; is that correct?

Mr. Rosenman: I don't think they were talking about purge then. I think the proffer of proof was to show there was no misuse.

Judge Worley: Misuse, yes; I am sorry, that is correct.

Mr. Rosenman. That was the proffer of proof and the Supreme Court said even if accepting the underlying facts there are still operative facts which would show that even if you prove what you proffered, even if you prove that, there are some things you cannot prove because the rec-
[fol. 1954] ord is very clearly against you, but even if you prove what you say, still there are operative facts here which would militate against you. Therefore, we are not going to permit a trial, but we will grant summary judgment.

Judge Worley: Now, suppose they did not offer all the proof they had to show that they had not misused it.

Mr. Roseman: Suppose they—I am not quite clear.

Judge Worley: They just offered—the proffer of proof did not include everything they could have shown or proved to cause the Supreme Court to reverse itself in that particular respect.

Mr. Rosenman: What the Supreme Court said, I think, was that no matter what you proffer, take your own proffer of proof or take anything else that you would offer and place them alongside of the uncontrovertible facts here which are in the record, namely your license agreements and everything else that I went over this morning, laying those two things side by side, "we say that the uncontro-

vertible proof would show that you are guilty of the conspiracy which the Government alleges."

They were then talking about the conspiracy, the restraint, the misuse.

Now, I say that what this court has held, and properly, that everything which has been mentioned here orally and everything which is mentioned in U.S.G.'s brief, if they were offered as proof before this court to show purge, that they could not possibly show a purge because they could not pos- [fol. 1955] sibly show any compliance with the final Supreme Court's decree, which was the only thing that opened up this industry to competition, and the only thing which dissipated the evil effects of the restraint and monopoly.

Judge Worley: Then there is no way in the world that they could have proved by their——

Mr. Rosenman: Before 1951?

Judge Worley: Well, 1949, I was talking about particularly.

Mr. Rosenman: Well, I think if they had gone—if what they had done in '49 had been to comply with everything which was stated in '51, if they could show that, but they make no pretence that they can show that in 1949 everything which the Supreme Court directed this court to find in '51 had been complied with two years earlier, and if they say merely, as they said this morning, that "We complied with the decree of 1949," that is not enough. The Supreme Court said that is not enough. That does not open up this industry the way it should be opened in order to create a purge.

I don't know whether I have attempted to answer you——

Judge Worley: You have, thank you.

Mr. Rosenman: Just a word about quantum meruit because they are apparently still contending that in some way, in spite of the misuse, they are entitled to a quantum meruit action.

This court has held, and I think correctly, and it is a holding which is unassailable, and it is based upon a long [fol. 1956] line of cases which I have adverted to a number of times, that where there has been a misuse there can be no form of action which covers the misused period.

Now, they claim, they still claim, however, that a quantum meruit in some way is possible. I would like to point out first that a quantum meruit for infringement of patent is an unheard of doctrine. There is no such thing.

A patent, patent rights are given by statute. If there is an infringement you sue for infringement. If there is an infringement, it is a tort, and you sue in a tort, and there is no such thing as a quantum meruit action for an infringement. We pointed that out in our original brief. We have elaborated on it in Appendix A in our present brief. The cases are legion. There is an infringement you sue in tort; you sue for infringement the way the statute gives you a right to.

The statute gives you treble damages in some cases, but you sue pursuant to the statute.

You cannot sue in quantum meruit which has its basis in a contract, a contract either in law or in fact. We contend there is no such animal, and that therefore, on infringement, you cannot sue for a quantum meruit.

Now, we claim that here they cannot sue on any quantum meruit based on an agreement implied and in fact, and we point that out for a number of reasons.

In the first place, your Honors have said they misused [fol. 1957] these patents and that would bar them and think that is dispositive of this whole thing, and that is what I meant when I said this morning this is a basic finding, there has been a misuse, an unpublished misuse, and, therefore, you can have no cause of action, even quantum meruit. But there are subsidiary reasons for that which are secondary.

The first thing is, in order to have an implied agreement, implied in fact on which you will sue on a quantum meruit, you cannot also have an express agreement. In other words, if you and I have an express agreement among us, between us, we cannot sue in quantum meruit. We sue in the express agreement, unless there is something wrong with the express agreement, that something wrong might be that it is illegal. If it is, then under a long line of cases, it is barred.

If it is not illegal, maybe it was rescinded, and if it is rescinded, then maybe we can sue on a quantum meruit.

Now, with respect to rescission, your Honors have held very forcibly, and I think very correctly, that they cannot

prove a rescission. That they never acquiesced in any repudiation for reasons which I have read in your finding 22 (b), there could not have been any rescission.

Therefore, this express agreement apparently still continued. It never was rescinded and, therefore, you could not have a quantum meruit implied in fact.

But there is another very compelling reason as to [fol. 1958] why they cannot bring an action in quantum meruit on an agreement implied in fact.

Article 4 of the decree, the final decree, which declared all of these license agreements null and void, went further and said not only the license agreements are null and void, but all supplements and amendments are null and void, and your Honors will recall what we pointed out on page 36 of our main brief here, that when it came to framing the decree, on page 36 of our main brief, there was a colloquy with Judge Bromley's partner as to whether or not there were any other agreements, because if there were any other agreements, the Government wanted to put them in the decree. And Mr. Connelly stated, on page 36, it can be certified that those are the only agreements in effect between the parties.

Now, here they allege that there was another agreement, an agreement implied in fact and, as a matter of fact, Mr. Connelly consented to adding to the list of license agreements over on page 37 the phrase, "and any supplement or amendment to any of said patent license agreements."

And he went further and said, "With that addition, the list is obviously all inclusive, and the certification requested may properly be named, namely, the certification that there are no other agreements that we have to worry about."

How can they say that to the court in framing the decree and say today that there was another agreement? We [fol. 1959] rescinded the old invalid agreements in 1948, and we made these new agreements which were now sued on; they are implied in fact. And certainly with respect to count three, which your Honors have designated as an indebitatus assumpsit on an express agreement, certainly that would be included in the same ban. And they are estopped, I should urge, as we did in our last argument, from insisting that there was an agreement implied in fact,

they are estopped by the fact that here they said to this court, "There are no such agreements, so it is not necessary to put any other agreements in the decree."

Now it is hard to tell whether counts three and four are urged by them as agreements implied in law. I can point to statements on both sides. Your Honors, I think, have construed these conflicting statements as meaning that Number 3, count Number 3, is an indebitatus assumpsit on an express contract, and that count Number 4 is one implied in law.

Is a quantum meruit count in law, unjust enrichment, an obligation implied in law? I don't know whether U.S.G. agrees with that, I am not quite clear as to what they count count 4 to be, but if it is implied in fact, for the reasons which I have mentioned, they cannot urge it.

If it is implied in law, then we think also it cannot possibly be urged for the same reason, namely, that in the first place there was misuse which your Honors have referred to, which was never purged. In the second place, here, too, [fol. 1960] there would have to be a rescission of the express agreement in order to have an agreement implied in law. We would have to get rid of the express agreement, and your Honors have held in your opinion, clearly in finding of fact 22, that there was no such rescission.

Now if, in fact, it was rescinded, then we say the only possible remedy that they would have would not be in quantum meruit, because there is no such thing for the infringement of a patent, but only a remedy for a suit for infringement, which would be barred by the misuse.

And, therefore, under these doctrines, which were urged and argued before your Honors 15 months ago, we believe that there can be no cause of action on any implied agreement in fact or in law. We believe there can be no action on the infringement in quantum meruit. We believe that counts one and two are barred almost as a matter of "hornbook law," and that under the misuse doctrine all of these actions are barred; that your Honors' basic ruling was correct, and that the basic amendment which your Honors made to the decree, is unassailable; that all of these causes of actions should be enjoined.

Judge Stone: Mr. Miller?

ARGUMENT ON BEHALF OF CERTAIN-TEED PRODUCTS CORPORATION

By Mr. Miller:

Mr. Miller: My name is Norman Miller, representing Certain-teed. I had intended to speak for about 15 or 20 minutes. However, I believe that I will shorten that period [fol. 1961] considerably because Judge Rosenman has ably and completely presented all the matters upon which I had intended to be heard.

I just want to make one additional comment supplementing the argument that Judge Rosenman made with reference to the question of quantum meruit, and that it would not lie for the use of a patent.

As Judge Rosenman pointed out, that was covered quite fully in the Appendix A in the statement of National and Certain-teed in opposition to U.S.G.'s motion for a new trial.

A reply brief which was filed by U.S.G. to that statement in opposition attempted to distinguish the cases which we had cited and I think those cases that they cited demonstrate on their face the soundness of our view, because those cases hold that you may waive the tort in your suit for infringement and sue on the contract.

Now, in order for them to rely on that position, they would have to sue all over again on the contracts which this court has held twice to be illegal, null and void, as directed by the opinions of the Supreme Court. There is no answer to the cases which we cite, that infringement, patent infringement, is a tort. It is a statutory remedy; your only action, your only right of action, is to sue for that tort or in the alternative you have one other remedy—you may sue on the contract under which you granted a license.

Now, that remedy is obviously unavailable to them. Even [fol. 1962] the Government has agreed that, as to counts one and two, which is the suit on the original contract, they have no standing in this court and, as I read Judge Cole's dissent, I believe if the case were limited solely to counts one and two, he would have had no trouble finding that this court had jurisdiction.

In my opinion, the citation of these cases practically puts the quantum meruit count, count 4, back into the same

category as counts one and two, and I believe Judge Rosenman has ably discussed the implied—or the nature of the claim as being implied either in law or in fact, not made clear by U.S.G., and requiring that you either tie it into the original license agreement or you tie it into a rescission of the license agreement which this court has found did not occur.

The only other alternative is to say that the parties entered into a new license agreement with reference to this same patent, and, as to that, the vice was ably demonstrated by Judge Rosenman. Then you are in violation of article 4 of the final decree because then you have an amendment or a supplement to the illegal license agreement which this court struck down.

I believe——

Judge Cole: Would it be correct to say, in your argument, if you are required to meet this litigation as to counts three and four that you could defeat both of them by a demurrer alone?

Mr. Miller: I would say, if your Honor please, that as a matter of law, and I believe the demurrer——

[fol. 1963] Judge Cole: Without any reference to the facts in this case whatsoever, that a demurrer would throw it out?

Mr. Miller: A demurrer based upon what is in the record in this case?

Judge Cole: Yes.

Mr. Miller: Should be sustained.

Judge Cole: I see. All right.

Mr. Miller: I thank you.

Argument on Behalf of Newark Plaster Company

By Mr. DeWitt:

Mr. DeWitt: My name is Benjamin P. DeWitt. I appear for the petitioner, Newark Plaster Company.

At the outset, and as a sort of text for what I have to say, may I call the attention of the court to a portion of its opinion. At page 34, the bottom of the page, the court said, "In each of the present U. S. G. suits, counts one and two are expressly based on the old license agreements and

seek to recover the royalties provided therein in the amounts provided for and measured by those agreements.

"Counts three and four are respectively actions of indebitatus assumpsit and quantum meruit, posed on the same underlying factual situation created by the license agreements. The amount sought in each of those two counts is precisely the same as stated in counts one and two.

"In count three, the amount is measured as in the agreements.

[fol. 1964] "Count five, also count six, in Newark and Ebsary suits is for infringement based on deliberate infringement and praying for a recovery in the amount 'not less than a reasonable royalty,' which exactly equals the amount measured by the unlawful agreements.

"We think this course of conduct as clearly shown by the proceedings of record in the antitrust case and in these suits by U.S.G., must be construed as meaning that U.S.G. has continued to misuse its patents by seeking recovery directly and indirectly on the illegal license agreements up to this time."

Judge Worley: Are you still using these licenses?

Mr. DeWitt: Pardon, sir?

Judge Worley: Are you still a licensee under these original patents?

Mr. DeWitt: We are not, sir.

Judge Worley: You are not. I understood neither you nor Ebsary——

Mr. DeWitt: Neither Ebsary or Newark is a licensee of U.S.G.

Judge Worley: You are not still using those patents?

Mr DeWitt: We are not, sir.

May I further call the court's attention to the language of its opinion on page 38, about a little above the middle of the page, "The U.S.G. suits now pending show conclusively that even it," meaning U. S. Gypsum, "is striving to enforce the royalty provisions of the illegal patent license agreements. We think such an attempt is clear misuse of its patents, that such misuse yet continues, and that to allow prosecution of [fol. 1965] these suits would weaken the effectiveness of the final decree."

Now, it appears from that language that there were two things which the court had in mind in holding that U.S.G.

should not be permitted to prosecute these various actions. One of them was, in a sense, negative, to the effect that U.S.G. had failed to establish a purge of its misuse. The other was affirmative in that U.S.G. has continued its misuse down to the very date on which it commenced these various actions.

Speaking for Newark, we rely, of course, upon both of these elements. We endorse everything which Judge Rosenman has said on behalf of National, and what he was said also with regard to the continued misuse, but inasmuch as Newark did not take out a license on May 15, 1951, when the final decree was made, Newark and also Ebsary are in a somewhat different situation from that in which National and Certain-teed find themselves, and what I propose to do, with the court's permission, is to show that this continued misuse by U.S.G., by insisting despite this court's clear finding that these agreements were illegal, null and void, in bringing these actions constitutes a bar to these actions against Newark and Ebsary.

Now, something was said here about what the intent of your Honor's predecessors in this court was at the time the decree was formulated back in 1949.

I was present in court and participated in the discussion [fol. 1966] of the form of that decree, and I think there is very little difficulty in finding out what the intent was at that time. U.S.G. argued strenuously that all that the decree should do was to cancel the existing license agreements. The Government insisted that the decree should contain a provision to the effect that these license agreements were illegal, null and void.

Now, at that time, Newark submitted to the court a memorandum with respect to this very provision, and U.S.G., in a memorandum, commented upon the provisions in the Newark memorandum. U.S.G. said, in effect, that Newark, in advocating that this provision be inserted in the final decree, was trying to prevent U.S.G. from recovering royalties under these license agreements.

Now, obviously counsel for the Government understood that that would be the effect, but more important, U.S.G. understood that that would be the effect—that by reason of this provision that these agreements were illegal, null and

void, they would not be permitted to recover any royalties under those agreements.

Now, despite that, they bring these actions in which they assert the right to recover royalties under these very license agreements which this court has held illegal, null and void, and which this court obviously knew when it declared them illegal, null and void, would mean that U.S.G. could not recover royalties.

Now, we are told that the only reason that U.S.G. included counts one and two in these actions was for the purpose of preventing the defendants, in opposing the suits, from claiming that there could be no infringement because [fol. 1967] they had license agreements. There has been no suggestion, of course, on the part of any defendant that that defense would be interposed, but that is not the real attitude of U.S.G. in bringing those two—in including those two counts, because, as we have already pointed out, U.S.G. has contended, even before this court, that the provision that these license agreements were illegal, null and void, did not really mean what it said, it did not mean that they were inherently illegal or improper.

Thus, in one of their briefs they say that while they acknowledge the court struck down the license agreements, they maintained the court did not strike the contract because it was inherently illegal or improper.

Again, in one of their briefs they say a reference to a few of the items contained in the proof filed on June 15, 1948, will readily show that "the adjudication of law violation was not by reason of any inherent illegality in the terms of the contract here sued on or the operations thereunder."

Now, that all adds up to an insistence up to the present time by U.S.G. that they have a right, an absolute right, to recover royalties under license agreements which this court has held illegal, null and void, and which this court, in holding illegal, null and void, intended to prevent any recovery of those royalties.

We claim that to do that is to do two things: First of all, [fol. 1968] it is to misuse the patents, it is a continuing misuse of the patents, and I go beyond that and I say that it is a flagrant disregard of this court's decree, amounting, in my opinion, to something approaching a contempt of this

court, because what they are doing is telling a District Court in New Jersey that these license agreements are valid, that they have a right to recover royalties under those license agreements while this court, by its decree of May 15, 1951, held exactly the contrary.

Now, because they—this constitutes a misuse, apart from anything else, it seems to me it prevents U.S.G. from having any recovery on its patents.

Moreover, because it constitutes a flagrant disregard of this court's decree, it seems to me, it calls for the interposition of this court to prevent U.S.G. from thus attacking in other jurisdictions the decree of this court.

You cannot have these agreements valid in Newark and in New York and in Iowa, and invalid in Washington.

Now, if we find that to insist, despite the court——

Judge Cole: In the suit against your company, the period covered is beyond 1951. It runs into the time of filing the suit, does it not?

Mr. DeWitt: I propose to come to that, and I will be glad to come to it right now.

Judge Cole: That is correct, is it?

Mr. DeWitt: That is right, sir.

[fol. 1969] Judge Cole: So there is no license existing between you at that time, '51-'53?

Mr. DeWitt: The situation so far as Newark, and this is true also of Ebsary, is concerned is this: On May 15, 1951, we did not take a license.

Judge Cole: That is what I understand.

Mr. DeWitt: We paid no royalties up to May 15, 1951, and we have paid no royalties since. We are now sued, Newark, in Newark, New Jersey, and Ebsary, in New York, for license fees for royalties, not only up to May 15, 1951, but also up to the date of the commencement of these actions.

In that regard, as I said at the outset, our situation is different from the situation of National and Certain-teed, who are sued for royalties only up to May 15, 1951, when they took out licenses in the form prescribed by the court in the final decree.

Now, so far as the period up to May 15, 1951 is concerned, we are in the, exactly the same situation as are National and Certain-teed and everything that Judge Rosenman

and Mr. Miller have said with regard to National and Certain-teed we endorce and adopt with respect to Newark and Ebsary up to May 15, 1951, but we have a burden beyond that in that we paid no royalties from May 15, 1951 to the date of the commencement of these actions.

Judge Cole: If I may interrupt you at that point to ask if between '51 and '53, if you had been enjoying the same [fol. 1970] patent rights and use of the product as you did prior to '51.

Mr. DeWitt: The answer—their answer is, no, we have not been enjoying the same patent rights.

Judge Cole: Wherein has the relationship between your company and U. S. G. differed?

Mr. DeWitt: While, with all respect to your Honor, I think it is extraneous, I will be glad to explain our position.

As Mr. Spray stated in his argument, I did——

Judge Cole: While it may be extraneous, what I have in mind is that—am I correct in also leaving this with you for comment?—if this proceeding, if they are restrained in this proceeding in Newark, means you go on forever as you are now without any payment whatsoever; is that correct?

Mr. DeWitt: No, your Honor, that is not our position.

Judge Cole: Without a license?

Mr. DeWitt: That is not our position.

Judge Cole: All right, then you correct it.

Judge Worley: Well, are the same patents involved now as prior to 1951?

Mr. DeWitt: Our position is this, and I want to meet you fully, Judge: Newark developed in American Cyanamid Company a new process and our claim is that even back in 1948, in this interim period, we discontinued making any use of these patents, so that when 1951 came we did not take out a license under these patents because we were advised by patent counsel that our patents did not infringe, [fol. 1971] that they constituted a different process, and therefore we had no reason to pay any royalties.

I adverted to that in a former appearance here; Mr. Spray commented on it this morning. In other words, in an action in Newark against Newark, we would have the de-

fense of non-use. That would be one defense. But that does not distinguish our situation, if the court please, from the situation of either National or Certain-teed.

They both actually have alleged in their defenses non-use, that is one of their defenses. We have not yet put in an answer in our suits, and all we have done is to indicate that if we do put in an answer, one of the defenses will be the defense of non-use.

Now, your Honor asks whether our position is that we could go on forever using U. S. G. patents without paying any royalties. My answer to that is certainly not, but we are not dealing here with that question, if the court please. We are dealing here with an attempt by U. S. G. to collect directly and indirectly, as this court has found, royalties under the very agreements which this court has held illegal, null and void.

Now, we would not claim that if that question were not involved we would have a right to continue to use patents indefinitely, but that question is involved. That is the crux of this whole case, as we see it, and as this court has pointed out. While they call the third count indebitatus assumpsit and the fourth count quantum meruit, and the [fol. 1972] fifth and sixth counts infringement, what they are doing is trying to recover directly and indirectly under license agreements which this court has declared illegal, null and void.

Now, this court, it is for this court to sustain its own decree. Our position is that this court cannot stand idly by and allow U. S. G. to assert in various parts of the United States, as a basis for recovering royalties, the agreements which this court has condemned are in fact valid. That is our position. This court is protecting, defending, enforcing, and validating its own decree; that is our position.

Now, what the situation would be if that element were not involved, is not germane to this discussion. Certainly, if we had been sued in Newark in an action which bore no reference whatever to these illegal license agreements, we would not be here asking your Honors to enforce youdecree. We would be defending in Newark.

We are here because we are asking this court to enforce its decree, so the answer to your Honor's question is, cer-

tainly we do not claim that we have a right to use anybody's patents indefinitely, and if we are sued for the use of patents or in ay other connection which does not involve a violation of this court's decree, we certainly would not come here, but the essence of this, as this court itself has found, and as I have just read, is that this misuse continues down to this very day. They say today that these agree- [fol. 1973] ments are not inherently illegal, that the court really meant to strike out the price-fixing provisions. Read their briefs. They say it in a half dozen different ways. They don't accept, even down to the writing of these briefs, they do not accept this court's decree.

Judge Worley: You think that is misuse——

Mr. DeWitt: I say that that is misuse.

Judge Worley: It is continuing misuse.

Mr. DeWitt: That it is a continuing misuse and, as I said before, it verges on a contempt of this court.

Judge Worley: Don't they have a right to question a petition as they have done here?

Mr. DeWitt: Pardon, sir?

Judge Worley: Don't they have a right to do as they have done here without that constituting a continuing misuse? Supposing we find ourselves in error in what we have done so far——

Mr. DeWitt: Our position, of course, is that your Honors are not in error. And our position, further, is that nothing has been said today which, in our opinion, would indicate in the slightest degree that your Honors have been in error.

We think that Judge Rosenman has established with complete clarity that there could have been no purge in any case prior to May 15, 1951. I need not review his arguments.

Now, he goes further and we go further, but we naturally emphasize it to a greater degree because it affects the [fol. 1974] period after May 15, as well as the period before, and we say that there has been a continuing misuse.

Now, that does not require any testimony. There is no amount of testimony can change the fact that, in all of these suits, they have deliberately tried to recover on void license agreements.

Judge Worley: Of course, they take the position they are not void.

Mr. DeWitt: But this court has solemnly pronounced them void.

Judge Worley: That is true, but we are not the last answer. It is the Supreme Court, is it not? Would they be——

Mr. DeWitt: The Supreme Court, sir, has affirmed that decree?

Judge Worley: I assumed an appeal will go from here to the Supreme Court.

Mr. DeWitt: That is correct.

Judge Worley: Would there be any continuing misuse?

Mr. DeWitt: If I understand your Honor's question, it is whether, on an appeal from this court's decision, the Supreme Court might possibly hold that these license agreements were not illegal, null and void. I say that matter is closed. The Supreme Court will not review that, in my opinion. The Supreme Court has already reviewed that. The Supreme Court has said, of the 1949 decree, which was the decree in which this provision first appeared, they affirmed that decree but broadened it; in other words, they [fol. 1975] adopted that provision of that decree.

Now, I do not believe that the Supreme Court, on an appeal in this case, is going to reconsider that decree of 1949 or the decree of 1951.

Judge Worley: I agree with you. I doubt if they do.

Mr. DeWitt: I can't see how they would do it.

Judge Worley: But, suppose on some other grounds they were to hold that U. S. G. is correct and should be allowed to collect on quantum meruit or some other theory.

Mr. DeWitt: Let's start with the assumption that the Supreme Court will not modify the provision in the final decree to the effect that these agreements are illegal, null and void. Let us start with that.

Now, starting with that, it follows on the undisputed evidence that U. S. G., despite that provision, asserts in several courts of the country that those very license agreements are valid and enforcible, and tries to recover royalties under them.

I say that that constitutes a misuse, a continuing misuse

of those patents, and, as a continuing misuse of those patents, it bars U. S. G. from recovering.

Judge Worley: Perhaps I don't make myself clear; perhaps I am not clear in my own mind what I am trying to say, but as I see it, U. S. G. is availing itself of its constitutional rights. We are not the court of last resort here. It will go to the Supreme Court. Now, it is hard for me to [fol. 1976] reconcile that position with your position that they were continuing to misuse so long as they question the accuracy or the wisdom or the correctness of the decision we have handed down, but that is your position, is it not?

Mr. DeWitt: I don't think, sir, that even U. S. G. will argue here that they will try to reverse the provision in the final decree of May 15, 1951, to the effect that these agreements are illegal, null and void.

Judge Worley: Well, I don't know. They might.

Mr. DeWitt: Perhaps your Honor would like to ask them. I doubt very much whether they would seriously go so far as to assert any such claim in the Supreme Court.

Judge Worley: What I was wondering particularly, where does your theory stop, when would they stop misusing, the continual misuse, assuming they are continuing?

Mr. DeWitt: Without wishing to be facetious, when they stop misusing it.

Judge Worley: Now, when would that be?

Mr. DeWitt: In other words——

Judge Worley: After the Supreme Court has finally passed on it?

Mr. DeWitt: I think the simple way, the very simple way for them to evidence an abandonment of misuse would be to discontinue all of these actions.

Judge Worley: You mean drop this suit?

[fol. 1977] Mr. DeWitt: No, drop the actions against Newark.

Judge Worley: Drop all actions?

Mr. DeWitt: Against Newark, Ebsary, National and Certain-teed, but I don't see— You might say, when is the criminal going to reform, and, I apologize for the suggestion, when he stops committing crime. When they stop misusing the patents.

As I say, if they never brought these suits, then we would not be here complaining about a misuse.

Judge Worley: But you take the position that so long as they continue to sue you they are misusing their patents, is that correct?

Mr. DeWitt: So long as they continue to sue us directly and indirectly to recover royalties or the equivalent.

Judge Worley: On contracts which have already been declared unlawful and illegal.

Mr. DeWitt: Under agreement which this court has solemnly declared illegal, null and void, with the approval of the Supreme Court. So long as they do that they are misusing these patents, that is our position.

When they stop it, if they don't do anything of the same kind, they will have stopped misusing the patents.

Judge Worley: Although this court has told them to stop it?

Mr. DeWitt: Pardon?

Judge Worley: They question the wisdom or the accuracy of our decision in that respect.

[fol. 1978] Mr. DeWitt: They don't question, as I understand it, the accuracy of the decision——

Judge Worley: They question——

Mr. DeWitt: —which says that the agreements are illegal, null and void. We start with that. I think everybody must start with that.

Judge Worley: Well, I am sorry to take such time. We are back where we started from.

Mr. DeWitt: They have a perfect right, of course, to come in here and make any argument they can to show they have not misused these patents, but they say, "When we sued on these illegal license agreements, all we meant to do was to foreclose a defense based upon those agreements; that is what they say now.

But if you look in the briefs, in their briefs, you will find that that is not their true position. They are still contending that those license agreements are not void, that they are valid; they have a right to enforce them.

It seems to me that that—It is perfectly apparent—that that constitutes a misuse of those patents. Now, they say it does not constitute a misuse, and their explanation is what I have just indicated. They say we just put them in as a kind of filler.

But I do not think that explanation is sound, and it is inconsistent with the arguments in their own briefs.

Now, proceeding from that, proceeding from the contention that the effort to recover royalties under these illegal [fol. 1979] agreements constitutes a misuse, then we proceed to the rest of this court's finding, namely, that what U.S.G. is trying to do under these other counts is, as the court said with reference to one of them, a left-handed way of trying to collect under the license agreement counts in debitatus assumpsit, quantum meruit, infringement, the whole thing hangs together.

They are trying to recover royalties in one way or another, on one theory or another, under illegal license agreements, and that, we say, constitutes a misuse, which bars a recovery.

Judge Cole: Does your company have its own machinery?

Mr. DeWitt: Oh, yes; we have our own machinery, our own plant, and we don't use any services of United States Gypsum. We are entirely independent in that respect.

Now, the court, in its opinion, made something of the fact that Newark has set up or intends to set up, rather, since we have not put an answer in, intends to set up as a defense, non-use.

I want to point out we are in the same situation in that regard as the other defendants. The other defendants, Certain-teed and National, have actually set that up as a defense, and just as this court held that did not mean that the suits against them should not be barred, so it would seem to me that it would follow that U.S.G.'s suit should be barred against us, despite the fact that if we put in an answer we might put in a defense.

As a matter of fact, I don't thing this court is concerned [fol. 1980] with the defenses that we might or might not interpose. I think this court is concerned with the question as to whether U.S.G. has misused its patents, is in violation of this decree. Having found that, it seems to me this court, in enforcing, validating its decree, should enjoin these suits.

I don't think it is necessary to add much, if anything, to the argument which has already been made, that if U.S.G.

cannot recover under the first two counts, it should not be permitted to recover under the other counts.

So far as quantum meruit is concerned, there is the argument which Judge Rosenman has advanced, that it does not lie for use of patents, but the Supreme Court has held in Bruce's Juices that where the transaction itself is illegal and you cannot recover on the contract itself, you cannot recover on quantum meruit in connection with the same transaction. So that it follows that, if this court finds that there is misuse it should bar U.S.G. from seeking to recover these royalties, not only under the license agreements on which counts one and two are based, but on quantum meruit because that is the same transaction, apart from the fact that you do not recover under quantum meruit for patent royalties. Indebitatus assumpsit is the same thing with a little elegant Latin language on infringement.

So our position is that this second ground for preventing these actions, namely, that the misuse continues to this day by reason of these suits, is available to Newark and Ebsary with respect to the period from May 15, 1951 to date, and [fol. 1981] until U.S.G. abandons that position.

Now, as I said at the outset, that is important for Newark and Ebsary are involved in this post-decree interim.

But if misuse in the form of an attempt to recover on these patent licenses prevents a recovery with respect to a period before May 15, it obviously would prevent a recovery after May 15. If it is a bar it is a bar, as long as it exists and certainly that misuse, the continued insistence upon the right to recover royalties under these provisions, that misuse continues right down to this very day.

Judge Worley: I misunderstood you. Apparently I thought neither your company nor Ebsary were using any of the patents that belonged to U.S.G.

Mr. DeWitt: That is right, sir.

Judge Worley: Since 1951.

Mr. DeWitt: They are suing us, nevertheless. They claim we are.

Judge Worley: I see.

Mr. DeWitt: They claim we are.

Judge Worley: But not under these—I see.

Mr. DeWitt: Yes. They claim royalties under these very

license agreements. They are suing us for royalties under these license agreements. One answer is, of course, we are not using their patents, but that is the answer of National and Certain-teed that is a defense we would have to set up. [fol. 1982] But, as I see it, what defences we have is not relevant here. The question here is, are these people flagrantly violating this decree? Are they misusing these patents by trying to recover royalties under agreements which the court held void and which the court, in holding void envisaged would not permit them to recover those royalties, as everybody knew at the time.

So that, with respect to Newark and Ebsary, we say up to May 15, 1951, the action for royalties against us, on any theory, is barred because there was a failure to purge, negative.

After May 15, 1951, we say because there was positive misuse, which continues today in the form of insistence by U.S.G. that they have a right to recover royalties under these void agreements.

Mr. Rosenman: If your Honor please, because of the question asked the court with respect to royalties, I would like the privilege of making a minute statement about the royalties which we have paid.

National, my client National, and Certain-teed, which is Mr. Miller's client, we have paid all of the U.S.G. royalties up to the time of the Supreme Court decision of 1948, the first declaration of illegality.

We ceased paying royalties then until May 25, 1951, at which time we claimed that new license agreements were offered to us pursuant to the decree of this court directed by the Supreme Court, and we have continued to pay royalties from May 15, 1951, until the expiration of the patent [fol. 1983] which is in issue here. Therefore, U.S.G. is suing National and Certain-teed only for that period between March or April, 1948, when the Supreme Court decision came down, down to May 15, 1951, and is not suing us for any other period. Of course, as I pointed out, our defense is that during those three years there was no purge and, therefore, we are not liable for that period.

But that is the only period which is in issue between U.S.G. and my client, and Mr. Miller's client.

Judge Stone: The court will take a recess for ten minutes.

(A short recess was taken.)

[fol. 1984] ARGUMENT ON BEHALF OF EBSARY GYPSUM COMPANY

By Mr. Rippey:

Judge Stone: The petitioners have yet 20 minutes and the U. S. G. has 40 minutes. We will hear you on the petitioners' side.

Mr. Rippey: May it please the court, my name is Joseph Rippey and I am speaking for the Ebsary Gypsum Company. What has been said by previous counsel——

Judge Worley: Pardon me, what is your name?

Mr. Rippey: Joseph Rippey.

Judge Stone: What?

Mr. Rippey: R-i-p-p-e-y.

Judge Stone: Thank you.

Mr. Rippey: What has been said by previous counsel for the petitioners is equally applicable to the Ebsary Gypsum Company. The Ebsary Gypsum Company is in a similar position to the Newark Plaster Company in the respect that Ebsary did not take a new license following the decree of May 15, 1951.

Ebsary also has been sued for a period of time to the time of the filing of the complaints. There is one additional patent which is included in the Ebsary claim, and that is an improvement patent which was not specifically mentioned by number in the original patent agreements, but it was referred to by this court as an improvement patent and included under another provision of the agreements.

At the outset, I should like to say that it has been [fol. 1985] suggested by counsel for the United States Gypsum Company that it is in the interests of the public that actions of his nature be brought by the Attorney General, that is, by the Department of Justice. Of course, that is true, but anything done along that nature by the Attorney General must necessarily affect the other parties in their private rights, and where their interests are diverse it must

necessarily affect their private rights as between themselves. That is the case here.

Where the agreement, the license agreements were declared null and void, that created, as this court pointed out, a status; or it declared a status, it did not create a status. In other words, the agreements were void from the beginning. They were not merely void after the final decree of May 15, 1951.

Now, in addition to the Attorney General, other private parties can enforce public rights, and that is particularly so here where, by the final decree itself the court reserved jurisdiction of the parties for the purpose of enabling any of the parties to this decree, or any other person, firm, or corporation, to apply to the court at any time for orders, modifications, vacations or directions, as may be necessary or appropriate for the construction or carrying out of the decree, and for the enforcement of compliance therewith.

That is exactly what the petitioners are doing now. They are other parties to the decree, aside from the United States Government.

Now, the complaint brought against the Ebsary Com-
[fol. 1986] pany and the causes of action contained therein are all for one purpose; it is all one package. It is an attempt to obtain recovery of back royalties by six different methods of stating causes of action, all with the same object.

That license agreement was declared illegal, null and void, and also the misuse of the patents was adjudicated at that time. The matter right now is res judicata up to May 15, 1951, the time of the entry of the decree.

Since a status was declared from the beginning, and misuse was declared from the beginning, there has been no change in that status up to the present time; that is, up to the time of the filing of the complaints. The status existed, and there is no particular point of time when the misuse was purged; at least it was not purged at the time of the filing of the final decree.

Our contention is that that time is of no significance whatsoever; it has continued to the present by the mere fact of filing the present action against the Ebsary Com-

pany and attempting to collect under the illegal agreements on the theory of contract, on the theory of the express contract, under quantum meruit, and for patent infringement.

The royalties were paid by the Ebsary Company up to the time immediately following the Supreme Court decree. This is not a case where royalties are sought or were not paid for some time back because, up to that time, the royalties were all paid by the Ebsary Company.

[fol. 1987] Judge Cole: Was the count against Ebsary on quantum meruit, does it make any reference whatever to licensing, license agreement?

Mr. Rippey: The quantum meruit count?

Judge Cole: Yes, it is——

Mr. Rippey: It is in similar form in the other cases, your Honor. The quantum meruit claim is the same. I don't believe it mentions it.

Judge Cole: From the period between '51 and '53, does it say anything about a contractual relationship at all between license agreements?

Mr. Rippey: Not under that count, no.

Judge Cole: Then what—how does that become involved in this litigation, then, '51 to '53?

Mr. Rippey: Because the complaint seeks recovery for use of the patents up to the time of filing the complaint, which is in 1953. That applies to the Ebsary Company and Newark, but it does not apply to the other two petitioners.

Judge Stone: That count is not based on the fact or any other count that you have not obtained a new license under the final decree.

Mr. Rippey: There is no allegation to that effect, although it is the fact. In the complaint——

Judge Stone: I say in the pleadings there is no such basis of recovery.

[fol. 1988] Mr. Rippey: It is not specifically stated. If that is what your Honor refers to?

Judge Stone: Yes, that is what I am saying.

Mr. Rippey: At the present time, the question of the existence of patents may be academic. If I am correctly informed, they have expired anyway now in 1953. If I am incorrect, I assume counsel for U. S. G. will make the correction on that.

But the position of the Ebsary Company is that the misuse that there has been which has been declared was a continuing proposition, that it depends upon the U. S. G. to affirmatively show that there has not been any, and that the date of May 15, 1951, the time of the filing of the final decree or the date of 1949 or any other date that may be chosen in between has no significance at all to the continuing status.

Judge Cole: You have your own machinery, also.

Mr. Rippey: We do, your Honor.

Judge Stone: Any other petitioners desire to be heard?

Mr. DeWitt: In the interests of accuracy, may I have just a moment? Judge Cole, I think, asked whether there was any mention in the quantum meruit count, I suppose your Honor would include under the term "mentioned" a reference.

Judge Cole: Yes, for the period I was thinking of.

Mr. DeWitt: I am looking at the quantum meruit count, count four of the Newark complaint.

Judge Cole: Yes.

[fol. 1989] Mr. DeWitt: The plaintiff repeats—"alleges as a part of his claim each and all of the allegations contained in paragraphs one, two and three of count one of the complaint, with like effect as if herein fully set forth." Count one of the Complaint, one, two and three, count one of the Complaint is the count which refers to these very license agreements.

Mr. Spray: That is paragraphs one, two and three of count one, Mr. DeWitt.

Mr. DeWitt: I understand.

Judge Stone: If the petitioners have finished their presentation, we will now hear the other side for 40 minutes. Mr. Spray.

REBUTTAL ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Mr. Spray:

Mr. Spray: If your Honor please, just to clarify this last point that we were on, the paragraphs one, two and three of count one, which is referred to in count four, is merely the averment regarding U. S. G.'s corporate organi-

zation in the State of Illinois; Newark, a corporation under the State of New Jersey; and that the court has jurisdiction by reason of this being a controversy between residents of different states involving more than $3,000. So that that reference back to count one had nothing whatsoever to do with incorporating anything about the old license agreements, and the quantum meruits of either count do not refer to the license agreements with this exception: count three, which we say is also a quantum meruit count, recites them but says they were rescinded and that this is [fol. 1990] suing for the rescission. So that really, the quantum meruit counts, neither they nor the infringement counts have anything whatsoever to do with the license agreements. They are inconsistent, and alternate counts, as I tried to point out this morning.

Now, in Mr. Rosenman's argument at the outset, he complained that we had had a full argument and prior hearing and the court had given full consideration, and that we were taking up matters which this court had carefully considered and rendered its decision.

Well, just unfortunately for the movers, the motion for new trial does involve questioning the correctness of the court's decision, which we are challenging. We do it with the greatest respect, but with a sincere feeling that this was an error committed which is very harmful in summarily throwing us out of court, and we do it in the spirit and with the feeling that if there is an error and we have been able to point it out, this court would be the first that would want to correct that error.

Judge Stone: That is the purpose of a motion of that sort, is it not?

Mr. Spray: Yes, sir, that is the way I think it is, and it does involve some re-argument.

Now, the reference is made to the findings which this court made about the Supreme Court opinions having found this broad violation of law and conspiracy as set forth in findings of fact four and five, and it seems to me that that again highlights the point that I tried to make [fol. 1991] right at the outset, that we get to one side and we get in the rough when we do not fully appreciate the limitations which we insist must be read with respect to

those two Supreme Court opinions: First, that the first one had only to do with the prima facie case, and secondly, I must believe the Supreme Court when it says that it construes the determination of this court to be on a very narrow limited issue and that it dismisses our appeals on the basis of that construction, and assuming the truth of all of our proffered facts.

Now, as an illustration of one thing, if the court accepts as true this proffered fact, that there was no agreement or understanding among the defendants or any of them that prices of plaster or any other unpatented Gypsum product would be raised, fixed or stabilized, nor did the defendants by any concerted action or otherwise raise, fix or stabilize any such prices, defendants' prices for plaster and other unpatented products have at all times been wholly competitive and were not in any way affected by the minimum prices established by the licensor for the patented board.

Now, if that be accepted as true, I just can't see how we can be standing here arguing that the Supreme Court held that this conspiracy which was found by this court, embodied all of these traditional violations of the Sherman Act which were alleged in the Complaint but which were set aside when we came to trying it to dispose of this thing on a motion for summary judgment.

[fol. 1992] Judge Rosenman also said that there was no purge until all evils, all the evil effects had been dissipated. He says that we say we stopped fixing prices back in '41. I would like to make it clear to the court that in using this phrase, "fixing prices," and "stop fixing prices," that was a short cut. We meant by that all these other related things which are tied back to the fixing of prices, the terms and conditions of sale, the classes of trade to be sold, the method of selling, the method of distribution, all of those things we intended to include when we said we stopped fixing prices under the licenses; we meant that, too. We were not just using the term price fixing in the narrow sense of fixing the dollar and cents price.

Judge Worley: Was that in your proffer of proof?

Mr. Spray: Yes, sir, I think that was.

Judge Worley: Could you have gone further in your proffer of proof?

Mr. Spray: I would like to clarify that right at this point. The proffer of proof, of course, had nothing whatever to do with this question of purge. That was not raised at that time. Our proffer of proof went to the question of meeting the Government's prima facie case which the court said, the Supreme Court said in its first opinion, had been made out when they remanded us and we found we were not to put in our evidence, but the Government moved for summary judgment.

We then made this proffer of proof which was to combat all of these charges that we had misused our patents, that [fol. 1993] we had violated the law in these many ways that were recited in the Complaint: but as to which we have never had our day in court. So that that was the purpose of the proffered proof and it was not as Judge Rosenman said, in the course of his argument, that the court said "you can assume all those things to be true but you still have not shown that you did not misuse your patents; you still have not shown that you were purged." That is not what the Supreme Court said.

It said, "assume all those things to be true, and you still have not avoided the narrow adjudication which this court made of law violation by reason of this industry-wide licensing," and that is all that the Supreme Court said with respect to our proffered proof.

Actually, the Supreme Court in neither of these decisions, in the first one or the second one, did the Supreme Court have anything to do with determining or not determining the purge issue.

The question of misuse and purge was not formally raised until these petitions were filed with this court in 1953, and it is as to that there are issues of fact joined, but we have never made a proffer of proof or introduced evidence with respect to them.

Judge Rosenman takes the position that we could not possibly show purge prior to May 15, 1951. But I say that that is incorrect, because purge, by the entry of a decree, is only one way of establishing it. We could, by evidence, show that we had not had any misuse of these patents clear up [fol. 1994] to, long before this final decree was entered, long before the November 7, 1949 decree was entered. That

is a matter of fact, of proof, and even though a decree had not been entered at that time, we could, in a trial where the issue was raised as it has been in these outlying suits, we could establish a purge long before that May 15th date or the November 7, 1949 date, if our evidence would support us, which we think that it would.

The decree is merely one accepted form of purge, and certainly this court thought, by its decree of 1949, November 7, 1949, that it had thereby purged any misuse of the patents because in the very decree it authorized our collection of royalty, reasonable compensation for the use of our patents, right in the very decree. That is pretty good judgment or pretty good evidence that this court thought that at that point there was a sufficient question of purge.

Now, the fact that the Supreme Court enlarged that decree does not mean that the Supreme Court was saying, "You did not purge yourself if you complied with that decree of '49." The issue was not before the Supreme Court. All that the court said was that "We sustain the lower court in holding that even on this proffered proof and the truth of it, there has been shown here enough to warrant a finding that there was a concerted action in violation of law." As they said, it was limited to that narrow, single issue, and I think that is clearly what this court [fol. 1995] thought they were determining and I think that is what the Supreme Court ruled in the second case, and it went ahead beyond that under an entirely different rule, namely, as I said this morning, that having found a violation, then the Government was entitled to a much broader decree so as to cover any possible future violation that might occur by agreements in this industry.

The point has been made that the suits are still on the docket and so we are still continuing our purge. I think in fairness it should only be pointed out that, as this court knows, those suits there are stayed pending the final determination and outcome of this. We are not trying to assert anything there. That action is stayed. Of course, it would be nice to dismiss those suits, with the Statute of Limitations having run on as much of the time as would have run on to this time, but it seems to me we are entitled, as Judge Worley has suggested, to exercise our American right of

questioning this thing in the courts, as to whether or not we should not rightfully be paid for this use of our product, our patents during this particular period.

Judge Worley: Where would you exercise that right, the District Courts where you chose them?

Mr. Spray: Well, that is where we chose to do it, because that is where they had jurisdiction. We knew we could establish the manufacture of the board with the use of our patents in those districts, in those jurisdictions. Had we come down here, I am sure we could have been met, certainly on the infringement claim, with the proposition that [fol. 1996] they didn't make any board in this district, and we were in the wrong district. We went right where they had their plants and we had our plants and we knew what they were doing and it was a proper jurisdiction and venue for trying out an infringement suit or a suit involving the use of our patents under some sort of contractual arrangement, either one among the parties or one implied by law.

Judge Worley: The question of purge would of course have been brought up there, would it not?

Mr. Spray: Sir?

Judge Worley: The question of misuse of purge.

Mr. Spray: It has been. It is an issue in the Iowa suits. As Mr. DeWitt said, they have not filed answer in their suit in Newark, nor has Ebsary in the suit in New York. By stipulation, pending the outcome here, we have just permitted that time to be extended.

Judge Worley: Do you suppose this court would have jurisdiction to hear the evidence, the question of purge of misuse, de novo?

Mr. Spray: I think the way this thing has come up, I think it would, yes, your Honor. I think we would have run into trouble had we tried to come down here, but the way this thing has been brought up, I believe the court could exercise that jurisdiction, yes, sir.

Judge Worley: Is that consistent with your questioning of jurisdiction of this court in other respects?

[fol. 1997] Mr. Spray: Well, I think it is, because I think we are over the hump as far as jurisdiction is concerned except insofar as there is an effort to expand this decree, but I think on petitions filed, we could get into that issue, yes, sir.

Judge Rosenman reads from finding of fact 22 that that shows that there was no acquiescence by U.S.G. in the license rescission.

Actually, all that shows is that there was no acquiescence on the part of U.S.G. at any time for the use of its patents without paying for it.

Reference has been made to the Hartford Empire case and I come back at that for one more fling; it has been back and forth like a tennis ball.

But I would like to make a few comments on that. Reference is made that that laid down the fundamental principle in the courts that where there is misuse there can be no recovery until a purge of that misuse, and any infringement suit or infringement prior to the entry of the decree should be enjoined, and recitation is made of the injunction provision in that court, which, as we pointed out, did not apply to the corporate defendants—I mean to suits against the corporate defendants. Reference is made to an infringement provision in that case and also to some sixty or some consent decrees which they cited in their original brief.

Now, there is no question but what courts have and sometimes do include injunction provisions in these antitrust decrees, and sometimes they do not, but the fact of the matter is that in this case neither in the 1949 decree nor in [fol. 1998] the 1951 decree was there any injunction against infringement suits such as was in the Hartford Empire case, in the limited fashion that I have mentioned, and I have never thought that it was surplusage in these other suits simply because such a provision was included, nor that it was oversight on the part of the Government or the defendants or the court or anyone else, simply because such a provision was not included in this suit, and sometimes it is not included in other suits. This is not a lone wolf in any respect from that standpoint.

It is interesting to me to hear, at this late stage, the petitioners urging the differences between Hartford Empire and this case. When they started out riding that as the cow case with all sails up, actually, I don't believe the attempted distinction stands up as they have tried to do it.

They say that the sole difference here is because, in Hart-

ford Empire, there was a receiver who collected royalties pendente lite, whereas we are trying to sue for the use of the patents pendente lite. Well, to me that could make no great distinction.

The royalties were collected to be held for and pending a final decision. The lower court had at first held that they should all be returned to the licensees who paid it. The Supreme Court reversed that and sent it back, and the final analysis of the thing is that in the settlement that was made and approved by the court, there was provision for a return of something over $7,000,000 to Hartford Empire for the use of its machines, for the use of its patents, and [fol. 1999] for the services that were rendered, and as I understand that case, the machines, many of them, did involve use of the patents, that is why the things were combined together, and the right to use the machines, the right to furnish the services, and the right to use the patents were all wrapped up in this one agreement, this one license agreement, they called it a license and lease, which was the thing that the court held illegal in that case, null and void, and yet there was recovery for this pendente lite use of that property in that case. And I submit by the same reasoning we are entitled to it in this case.

Reference is made to a free ride that was given to some of them in the Hartford Empire case. Frankly, I do not know just what that was. As I understood it, the only ones who were entitled to a free ride would be those who did not want to use the patents and did not take a license, and they were given authority to fight it out with Hartford as to how much of the fees that they had paid they could get back. That, to me, is not much of a free ride; certainly nothing compared to what these defendant co-conspirators have gotten in this case.

It is said that National should have a release because it took a license. There is nothing in our compulsory licensing provisions of our decree which says that we must give a release to anybody who asks for and takes a license. It was not in the provisions which were carefully worked out and approved by the Government, by us, by National, by Certain-teed and all the other defendants. There was [fol. 2000] not anything that said we would have to give a

release along with any new license that we granted under that—under those compulsory licensing provisions.

In stating that the Hartford Empire decree prohibits infringement, I again call attention to the fact that it expressly excluded infringement—I meant infringement suits, prohibited infringement suits. I again point out it did not prohibit infringement suits against co-defendant companies.

Before I leave Hartford Empire and the note on this page, I would like to ask leave to submit to the court, and it will be done, I will file it with the Clerk tomorrow, a copy of paragraph eleven (f)—maybe (d) and (f)—of that Hartford Empire decree which was referred to today. Judge Rosenman handed up paragraphs 15 and 16, I think. The one I want to hand up is the one in which the court approved the payment of a substantial part of these royalties to Hartford Empire, and if I may have leave to do that it will be in this court's hand by tomorrow.

Judge Stone: That may be done. Is it possible that, without inconvenience to counsel, we might have a copy each of the entire decree?

Mr. Spray: Well, I will make every effort to get that. I think those are rather rare, scarce articles, your Honor.

Judge Stone: I imagine so.

Mr. Spray: If we can possibly obtain it, I will try to furnish that. And I think if I cannot get it—the trouble [fol. 2001] is, the decree becomes quite bulky because it involves numerous exhibits that are attached. The decree itself is not so prohibitive. I think we might get the decree itself without the exhibits quite easily, but what I would like to do is get the printed form of decree which we have, one copy, and Judge Rosenman has one copy, but I think they are very difficult to get.

Judge Stone: Well, we do not wish to place any burden on you.

Mr. Spray: I would not consider it a burden. I would be delighted to get it for the court if I could.

Again, I say the co-defendant licensees here are like the co-defendant companies in the Hartford Empire, who were subject to pay for the use of the patents during this same period we are talking about.

Judge Stone: No distinction was made there, was it, no breakdown as between the patents, no allocation was made as between the patents and the machinary and services.

Mr. Spray: No, the whole thing was paid as a lump sum.

Judge Stone: Lumped together.

Mr. Spray: And I would not know, no one would guess how the breakdown was. I think that Judge Rosenman was very fair in his apprisal that it is fair to assume that there was a substantial amount of that that was because of the use—for the use of the patents, as he stated today.

Judge Stone: You have 15 minutes, Mr. Spray.

[fol. 2002] Mr. Spray: Thank you, sir. I am afraid I am over my time already.

Now, on the matter of this section 251 (d), and before I get to that, 271 (d), I do want to say I have heard the constant repetition that what we say cannot be given any real effect because, as this court held, there was a continuing misuse of our patents by the bringing of these suits for money, for the use of the patents.

Well, of course, if we are wrong on that, then it is quite true, but that is one of the points we are asserting here as an error in the decision and which we are asking the court to reconsider.

Now, as to 271 (d), to state that it is limited to contributory infringement is merely to ignore the language of the Statute which expressly refers to infringement and contributory infringement.

The Cole case, which we cited and which is referred to, was certainly on that point and held that it applied to infringement, and that is why we cited it.

It is quite true we have a slightly different case, but we are saying that the public policy shows that the enforcement of patent rights alone cannot be treated as a misuse of patent, and that we are trying to enforce our patent rights either by infringement suit or by some other means of recovery such as quantum meruit for the use of the patents under circumstances which would not be infringement [fol. 2003] but which would be subject to an agreement to pay which the law would imply.

It was the matter of declaration of public policy, as shown by that patent codification, that we were relying upon.

Judge Rosenman, in referring to the second Supreme Court decision said that, assuming the truth of the allegations, of the proffered proof, the defendants were still guilty of the conspiracy which the Government alleged.

That is not so by our reading of it. It said that, assuming the truth of that, we were still not guilty of the conspiracy which this District Court had found, that narrow conspiracy.

Now on quantum meruit, I think we have answered that in our reply brief which was filed and which I believe is with the court, but there may not be a formal order yet permitting us, granting us the right to file it. I would call that to the court's attention.

There we have pointed out that in quantum meruit the cases are clear that you can waive the tort and sue in quantum meruit. But we are not doing that here. We are suing for infringement, or have an infringement count for the infringement. We are suing in quantum meruit for the use of patents under circumstances from which the law would imply a promise to pay.

Judge Stone: If there is no order regarding your reply brief, the order will now be made and will be regarded as filed.

Mr. Spray: Thank you, sir.

[fol. 2004] Judge Stone: It has been considered by the members of the court.

Mr. Spray: In answer to Judge Worley's question as to whether, or one of the questions of the court, as to whether or not Newark could go on forever using the patents without paying, I understood Mr. DeWitt to say "No," but it seems to me from his argument they could go on forever avoiding the issue of whether or not they were actually using our patents, and that is what we are trying to try out in the Newark suit. I hope I have left some time for Judge Bromley. I know he had a few words to say and I do want to thank the court for their consideration given us today.

REBUTTAL ARGUMENT ON BEHALF OF UNITED STATES GYPSUM COMPANY

By Mr. Bromley.

Mr. Bromley: May it please the court, Mr. Spray is right, I think, when he suggests that the nub of Judge Rosenman's argument on purge is that there cannot be a purge without a court decree.

I say with deference that is patently absurd. Suppose we walked in here tomorrow with our witnesses and established, as we can, I think, that between 1941 and 1948 we revised our practices in this industry so that we did everything that was called for by the 1951 decree, and that during the period between 1948 and 1951, nothing changed with respect to our practices and we made no violation of the antitrust laws. I submit that that would establish a purge, [fol. 2005] and could be done without the showing that we did it under judicial compulsion, just as open to us to show purge by reason of what we did voluntarily to comply with the law as it is to show purge by assuming that we obeyed a court decree.

It is interesting to me that the very case which Judge Rosenman specifically called your attention to this morning from New Jersey, the Schiplets case, giving you the citation in 89 Federal Supplement 814, arrives at the same result. There the plaintiff owned a patent for a complicated mechanism used for the production of print butter, a small portion of butter bearing a symbol or design.

He brought a suit for infringement. The defendant, who was a competitor, moved to dismiss the complaint, and the court considered the motion on a showing that the plaintiff in this suit, who sued for infringement of his patent, had a practice of leasing the patented machine to users under a covenant whereby the user agreed to use the machine exclusively and not to use the machines of any competitor. And the court dismissed the Complaint, saying that the suit for infringement of that patent showed on its face that the patent was being misused.

In dismissing it, however, Judge Smith in Newark says this, "It follows the Complaint must be dismissed. The dismissal, however, shall be without prejudice to the right of the plaintiff to commence another suit upon its abandon-

[fol. 2006] ment of the leases herein found to be illegal."

Now that, to me, is authority out of their own brief and their own citation for the proposition that Judge Rosenman is not correct when he says the only way you can show purge is by a court decree.

I don't know that I agree with Mr. Spray that this court has jurisdiction to enter into any such venture as the determination of purge in this situation.

I do not think it has, but if it did have, it seems to me to be a most unwise exercise of jurisdiction for this court to undertake, because, as I look at it, it involves different sets of circumstances as between U.S.G. and four of these defendants. What we did with respect to National to purge our misuse as to it may be and probably is different in some respects from what we did with respect to Certain-teed, and our pleadings of our causes of action indicate that there may be that variance. So I think it would be an unwise exercise.

Judge Worley: I did not subscribe to the wisdom of that proposition.

Mr. Bromley: I know you did not, sir.

Judge Worley: I merely asked a question.

Mr. Bromley: It seems to me your question, however, only underlines the contention that the proper place for any such determination as that is in the respective courts where the actions against these defendants are pending.

[fol. 2007] I did want to call to your attention, Judge Worley, what I believe is an answer to the question which you asked Judge Rosenman. As I remember it, you said this to him. "Did the patents in Hartford Empire cover the machines used by the licensees?"

Well, that question can be answered from the final decree in Hartford Empire of October 31, 1945, on page 8, paragraph numbered five. That paragraph recites that the defendants, naming them, and including Hartford Empire, "have monopolized, combined and conspired to monopolize and conspired to restrain trade in violation of the Sherman Act, with respect to patents covering inventions embodied in machinery used in the manufacture of glassware, and patents with respect to machinery used in the manufacture of glassware." So that I think the answer is perfectly plain.

Judge Worley: Patents covering and patents used in connection, with respect to——

Mr. Bromley: Yes, sir. I think that means products patents, machine patents and process patents, and improvement and device patents, as well.

In conclusion, I still find myself confused as to what the defendants' position really is about their asserted misuse. Is it that the bringing of the suit is a new misuse, and, if it is, what about the two year period that preceded the bringing of our suits against these defendants? If, as Judge Rosenman said, the May 15, 1951 decree completely purged us, then until we brought the suits we must have been entirely innocent and entitled to assert all of our rights. Can [fol. 2008] it be that the mere bringing of the suit has so converted our proper conduct for the preceding two years into improper conduct? I certainly think not. Can it be that the mere act of bringing the suit at a time when we were purged of all wrongdoing suddenly becomes wrongful? I submit not.

I, too, desire to thank your Honors for your great patience and the careful consideration of the opportunity which you have given us to come here and take your time in re-argument, and I know I speak for all counsel at both tables.

Judge Stone: Mr. Knuff, Judge Cole called my attention to a matter that I thought I had covered and that was that all of the petitioners had an opportunity to be heard. We thought you might not have understood that.

Mr. Knuff: Yes. I understood it, your Honor, and to the extent——

Judge Stone: Because if you do want to be heard we would be delighted to hear you.

Mr. Knuff: No. To the extent, your Honor, that the argument of the petitioners supports the position of the Government, we have nothing to add to that argument. However, it is our understanding that in the present posture of these proceedings, no one has challenged that part of the court's findings which sustained the position of the Government. That is conclusion Number 7, conclusion of law Number 7. It is not in issue. Nobody has challenged that and that is the conclusion that sustained the Govern- [fol. 2009] ment's position.

Judge Stone: Mr. Rosenman?

Mr. Rosenman: Judge Worley asked Mr. Spray a question, whether he thought this court could determine the question of fact or whether only Iowa could, and he and Judge Bromley answered that question. Could I state my views on that? It is something which occurred in their rebuttal argument, and it was not asked of me. Would it be helpful if I stated my views toward what Judge Bromley said as his answer?

Judge Stone: Is there any objection to hearing counsel briefly on that?

Mr. Bromley: No, sir.

Judge Stone: You may proceed briefly.

Mr. Rosenman: Yes, sir. Although Mr. Spray thought he could, Judge Bromley disagreed with him and said that there are four different defendants here and what U.S.G. did with one defendant might be different from the course of conduct it took with another defendant.

I think that misconceives the idea of patent misuse and the concept of patent misuse, because if you misuse your patents with respect to anybody, then you are subject to the doctrine of misuse, and if in fact they did misuse it with any of these licensees, here in court or licensees out of court, then they are guilty of misuse so that the answer that it would depend upon what we did with each respective licensee, I submit, does not answer the question. The same [fol. 2010] question will be involved in respect to all of the suits, namely, was there any misuse of the patent or wasn't there, and it does not depend upon what happened with each different licensee.

Thank you very much for this opportunity.

Judge Worley: If a patentee misuses his patent with respect, say, to one individual, yet does not misuse it in any form with respect to, say the rest of the public, that misuse carries over to all of the licensees.

Mr. Rosenman: I would say if that misuse produces the kind of evil effects of restraint and monopoly which the Supreme Court spoke of, then it applies to everybody in that industry.

Judge Worley: That is what I wanted to clarify.

Mr. Rosenman: Yes.

Judge Worley: If it produced that kind of evil that the Supreme Court has said is bad?

Mr. Rosenman: Yes, sir. It is bad as to everybody.

Judge Worley: But otherwise it is just a question of degree?

Mr. Rosenman: Well, I think it is a question of is it a misuse, and a misuse is defined by the court to mean using a patent beyond the legal terms of the monopoly given to you, and if it goes beyond that with respect to anybody, then I think the courts hold that that is a misuse of the patent and the result is that you cannot sue any infringer while that misuse continues.

Judge Worley: It would again be a question of fact as to [fol. 2011] each case?

Mr. Rosenman: That is right. I respectfully urge that that question of fact has been determined already, that this has been a misuse, and I don't think it makes any difference whether it is as to two licensees or more.

If in—if I may add to that, if there has been a misuse, if the court finds a misuse with respect to anybody, and that misuse is what the court holds to be a misuse, then the effects of that misuse are applicable to the whole world, and I don't think it is a question of fact as to whether it is a misuse with respect to one licensee or another. If the acts come within what the courts call a misuse, and we urge that that is the fact here, then the results, the effects of that misuse, the penalties of that misuse are applied.

Judge Worley: Universally?

Mr. Rosenman: With respect to the whole world. What is your Honors' wish with respect to this record?

Judge Stone: You mean the record made today, Judge Rosenman?

Mr. Rosenman: Yes, sir.

Judge Stone: The court has just instructed the Reporter to furnish each member of the court with a copy of the transcript, and I wish to thank you gentlemen in the name of the court for the great help you have given us today and heretofore in the conduct of this case. I think since we have placed the burden of so many hours of argument upon you, it is due you to say that the members of the court tried for [fol. 2012] several days to find a date when we could devote

two days to this hearing, but the commitments of the different members of the court happened to be such that we could not do that until toward the summer, and that might be imperilled, even, so we had to subject you gentlemen to this, but you have been very, very helpful and we thank you.

Mr. Marshal, announce that the court will be in recess until further call.

(Whereupon, at 5:20 p.m., the argument was concluded.)

[fol. 2013] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER DENYING MOTION FOR NEW TRIAL—June 30, 1955

After full consideration of the matters presented by counsel in support of and in opposition to the Motion for a New Trial now pending herein, it is hereby

Adjudged and Decreed that said Motion be and is hereby denied.

Kimbrough Stone, Circuit Judge. Eugene Worley, District Judge.

I adhere to the views expressed by me in the dissenting opinion heretofore filed herein.

William P. Cole, Jr., District Judge.

Dated this 30 day of June, 1955.

[fol. 2014] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

No. 8017 Civil

UNITED STATES OF AMERICA, Plaintiff,

v.

UNITED STATES GYPSUM COMPANY, et al., Defendants

MEMORANDUM OPINION RE DENIAL OF MOTION FOR NEW TRIAL —June 30, 1955

Before the Honorable Kimbrough Stone, United States Circuit Judge and the Honorable Eugene Worley and the Honorable William P. Cole, Jr., Judges of the United States Court of Customs and Patent Appeals, sitting as District Judges.

PER CURIAM: The function of a motion for a new trial is to direct the attention of the Court to matters in the opinion of the trial court, in its findings of fact or in its conclusions of law, which counsel regard as having resulted in an erroneous judgment. Here, counsel for the various parties have ably presented or opposed the present motion.

Although the merits of these petitions by the Government and the other petitioners were exhaustively discussed and determined, in majority and dissenting opinions, and the settlement of Finding and of the Conclusions and the form of judgment had been painstakingly considered by this Court heretofore in the light of extended invited suggestions from counsel, we have not deemed this present motion as merely a necessary formal step in the progress to a final determination by the Supreme Court. Not only have we listened to the excellent oral arguments on this motion but we have carefully read and studied the complete tran-[fol. 2015] script of that hearing as well as all of the matters brought to our attention therein.

Because of these efforts by the Court members and because we still adhere to the views heretofore expressed, it would be but repetition to write a memorandum ruling this motion were it not for one entirely new feature which ap-

pears for the first time in this motion. This one matter requires attention and determination. This is the contention by USG that Section 271(d) of Title 35 expressly protects the USG suits against petitioners from any defense of "misuse" on its part of its patents.

The here pertinent language of paragraph "(d)" is that "No patent owner otherwise entitled to relief for infringement * * * of a patent shall be denied relief or deemed guilty of misuse or illegal extention of the patent right by reason of his having * * * (3) sought to enforce his patent rights against infringement * * *."

The vital words for us in this quotation are "otherwise entitled". Patents are classical instruments in conspiracies and combinations to violate the Sherman Act. Can it be that where a designated misuse of patents—here patent license agreements—has been adjudged to be violative of that Act that thereafter the patentee-licensor is absolutely protected by paragraph (d)(3) from the defense of misuse in recovering upon those adjudged unlawful agreements? Can it be possible that the Congress intended, by paragraph (d), to give to a patentee a protection superior to the broad public policy of the Sherman Act?

We have determined that the 1951 Final Decree should be modified to effectuate that Decree fully. Those modifications cover the USG suits definitely. We cannot believe that paragraph (d) was intended to or can properly be con-
[fol. 2016] strued as nullifying the power of this Court to effectuate the purposes of an anti-trust decree. In short, USG is *not* "otherwise entitled" to come within paragraph (d)(3).

[fol. 2017] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER TO CERTIFY AND TRANSMIT ORIGINAL DOCUMENTS—August 25, 1955

Upon consideration of the request of United States Gypsum Company for an Order directing the Clerk of this

Court to certify and transmit to the Supreme Court of the United States the original papers and documents specified in designations to the Clerk of this Court as the transcript of the record on appeal, and no oppositions having been noted thereto, it is by the Court this 25th day of August, 1955,

Ordered, That the request be, and the same hereby is granted, and the Clerk of this Court is directed to certify and transmit to the Supreme Court of the United States the original papers and documents specified in such designations.

William P. Cole, Jr., Judge.

[fol. 2018] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

ORDER STAYING DECREE OF DECEMBER 9, 1954 AND FIXING AMOUNT OF SUPERSEDEAS BOND—August 25, 1955

Upon consideration of the petition of United States Gypsum Company for an Order staying this Court's decree of December 9, 1954, and no oppositions thereto having been noted, it is by the Court this 25th day of August, 1955,

Ordered, That upon the approval of the supersedeas bond, as hereinafter provided for, said judgment and decree of December 9, 1954 be, and the same is hereby stayed in all respects until the disposition of the appeal by the United States Gypsum Company to the Supreme Court of the United States.

It is further ordered, That a supersedeas bond be, and the same hereby is, fixed in the amount of $250.00 with good and sufficient surety and shall be conditioned as may be required by law.

William P. Cole, Jr., Judge.

Assented to: Kimbrough Stone, Judge, Eugene Worley, Judge.

[fol. 2019] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

SUPERSEDEAS BOND ON APPEAL AND APPROVAL THEREOF—August 25, 1955

The undersigned as principal, being about to file a notice of appeal to the Supreme Court of the United States to reverse the final decree of the three-judge court entered in the foregoing action on December 9, 1954, is required, to supersede said final decree, to give an undertaking, under seal, in the sum of $250.00 dollars, conditioned for the satisfaction of the judgment in full with costs, interest, and damages for delay, if for any reason the appeal is dismissed or if the judgment is affirmed, and to satisfy in full such modification of the judgment and such costs, interest, and damages as this Court may adjudge and award.

Wherefore, the undersigned United States Gypsum Company, as principal, and Fidelity & Deposit Company of Maryland, as surety, appearing and submitting to the jurisdiction of the Court, hereby undertake for themselves and each of them, their and each of their successors and assigns, to comply with the conditions as above set forth, and do further agree that, upon default by the said principal in any of the conditions hereof, the damages and costs, not exceeding the sum aforesaid, may be ascertained in such manner as this Court shall direct; that this Court may give judgment hereon in favor of any person thereby ag-[fol. 2020] grieved against them for the damages and costs suffered or sustained by such aggrieved party; and that said judgment may be rendered in the above entitled cause or proceeding against either or both of them whose names are herein signed.

The said surety hereon hereby irrevocably appoints the clerk of this Court as its agent upon whom any papers affecting its liability on this undertaking may be served.

Signed, sealed and delivered this 25th day of August, 1955.

United States Gypsum Company, by O. M. Knode (Seal), Its President; Fidelity & Deposit Company of Maryland, by Carlton W. Roe (Seal).

Attest: F. L. Stellner, Secretary.

Surety holds authority from Secy. of Treas. to do business in D. C. and has a process agent therein.

Harry M. Hull, Clerk.

By Robert C. Huey, Deputy Clerk, Aug. 24, 1955. Surety and amount approved this 25th day of August, 1955.

William P. Cole, Jr., Judge.

Assented to: Kimbrought Stone, Judge; Eugene Worley, Judge.

[fol. 2021] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

NOTICE OF APPEAL TO THE SUPREME COURT OF THE UNITED STATES—Filed August 26, 1955

I

Notice is hereby given that United States Gypsum Company,* one of the defendants above named, hereby appeals to the Supreme Court of the United States from the final decree of the three-judge court entered in the foregoing action on December 9, 1954, the court by its order of June

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* Referred to herein as U. S. Gypsum, Defendants National Gypsum Company, Certain-Teed Products Corporation, Ebsary Gypsum Company, Inc., and Newark Plaster Company are referred herein as National, Certain-Teed, Ebsary and Newark, respectively.

30, 1955, having denied U. S. Gypsum's motion for new trial filed herein on December 20, 1954.

This appeal is taken pursuant to Section 2 of the Expediting Act of February 11, 1903, as amended (32 Stat. 823; 36 Stat. 1167; Title 15 U.S.C. Sec. 29) and Title 28 U.S.C., Sec. 1253.

[fol. 2022] II.

The clerk will please prepare a transcript of record in this cause, for transmission to the Clerk of the Supreme Court of the United States, and include in said transcript the following:

A. The following portions of the record previously certified to the Supreme Court of the United States in response to the plaintiff's praecipe filed herein on October 18, 1946, and the defendants' counter-praecipe filed herein on June 15, 1946:

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[fol. 2026] B. The following portions of the record previously certified to the Surpeme Court of the United States, subsequent to the first mandate of that court filed herein on June 8, 1948, in response to plaintiff's praecipe filed herein January 25, 1950, and the counter-praecipe of defendants, U. S. Gypsum, Sewell L. Avery and Oliver M. Knode, filed herein February 3, 1950 and subsequent motions to supplement the record:

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64. Memorandum in opposition to plaintiff's proposed decree, findings and conclusions filed by defendants U. S. Gypsum, Sewell L. Avery and Oliver M. Knode, March 4, 1949 12620-12717

C. The following portions of the record not previously certified to the Supreme Court of the United States either because not deemed pertinent to the prior appeals herein or because of their becoming a part of the record subsequent to the second mandate of the Supreme Court of the United States filed on January 4, 1951:

1. Mandate of the Supreme Court of the United States dismissing appeal of U. S. Gypsum, et al., filed July 19, 1950.

2. Mandate of the Supreme Court of the United States issued November 27, 1950 and filed herein on January 4, 1951.

3. Memorandum entitled "Memorandum Submitted on Behalf of Defendants, Newark Plaster Company and Frederick Tomkins, on the Form of the Findings, Conclusions and Decree to be Entered in this Action," filed March 3, 1949.

4. Memorandum of defendants National and Melvin H. Baker in Opposition to plaintiff's proposed findings, conclusions and decree, filed March 4, 1949.

5. Objections of defendant Certain-teed to plaintiff's proposed findings of fact and conclusions of law, filed March 3, 1949.

6. Objections of defendant Certain-teed in opposition to plaintiff's proposed decree, filed March 3, 1949.

7. Memorandum of defendants Ebsary and Frederick G. Ebsary in opposition to plaintiff's proposed findings, conclusions and decree, filed March 4, 1949.

8. Objections of defendant Celotex in opposition to plaintiff's proposed findings of fact, conclusions of law and decree, filed March 4, 1949.

[fol. 2029] 9. Memorandum of the defendant Texas in response to the proposed findings, conclusions and decree heretofore submitted by the plaintiff, filed March 4, 1949.

9a. Copies of forms of revised license agreements filed

with the court by U. S. Gypsum at the June 1949 hearing (TR. 8150; 8257-60).

10. Memorandum of defendant Newark, filed July 14, 1949.

11. Supplemental memorandum of defendants National and Melvin H. Baker, filed in July, 1949.

12. Reply memorandum of U. S. Gypsum filed July 23, 1949.

13. Suggested form of revised decree filed by the plaintiff on March 6, 1951.

14. Suggested form of revised decree as filed herein by defendant U. S. Gypsum on March 6, 1951.

16. Suggested form of revised decree as filed herein by National on March 6, 1951.

16. Suggested form of revised decree as filed herein by Certain-teed on March 6, 1951.

16a. Form of decree as revised by U. S. Gypsum to reflect the negotiations between the parties and as filed May 15, 1951.

17. Final decree entered May 15, 1951.

18. Reporter's transcript of the proceedings on May 15, 1951, and June 15, 1951 (being transcript pages 8301 to 8358, both inclusive).

19. Petition of National for orders, modifications or directions for the enforcement, construction or carrying out of the decree of May 15, 1951, filed March 25, 1953, together with Exhibits A, B, C, D, and E attached thereto.

20. Petition of Certain-teed for enforcement of compliance with final decree of May 15, 1951, filed April 22, 1953.

21. Petition of Newark for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951, filed May 16, 1953.

22. Petition of Ebsary for orders, modifications or directions for the enforcement, construction or carrying out of the final decree of May 15, 1951, filed June 3, 1953.

23. Petition of plaintiff for orders or directions for the construction, carrying out or enforcement of the final decree of May 15, 1951, filed June 30, 1953.

24. Answers of U. S. Gypsum to petition of National of March 25, 1953, to petition of Certain-teed of April 22, 1953, to petition of Newark of May 15, 1953, to petition of Ebsary

of June 3, 1953, and to petition of plaintiff of June 30, 1953, filed September 9, 1953.

[fol. 2030] 25. Copy of Amendment to Complaint filed March 24, 1953, in the United States District Court for the Northern District of Iowa, Central Division, in cause entitled "United States Gypsum Company v. National Gypsum Company, Civil Action No. 564," a copy of which was filed herein on July 28, 1953.

26. Copy of amended answer filed by National in the United States District Court for the Northern District of Iowa, Central Division, in cause entitled "United States Gypsum Company v. National Gypsum Company, Civil Action No. 564," a copy of which was filed herein on June 25, 1953.

27. Copy of answer filed by Certain-teed in the United States District Court for the Northern District of Iowa, Central Division, in cause entitled "United States Gypsum Company v. Certain-teed Products Corporation, Civil Action No. 568," a copy of which was filed herein on June 26, 1953.

28. Order entered herein May 7, 1953, appointing Judge William P. Cole, Jr., as a member of the court in place of Judge Joseph R. Jackson.

29. Reporter's transcript of the proceedings herein on June 9, 1953 (being transcript pages 1 to 57, both inclusive).

30. Order of the court entered herein December 24, 1953, appointing Judge Kimbrough Stone to the court as successor to Mr. Justice Harold M. Stephens, resigned, and Judge Eugene Worley, as successor to Judge Finis J. Garrett, resigned.

31. Reporter's transcript of the proceedings herein on January 12 and 13, 1954 (being pages numbered 1 to 253, both inclusive).

32. Opinion of Judge Kimbrough Stone for the majority, filed July 6, 1954.

33. Dissenting opinion by Judge William P. Cole, Jr., filed July 6, 1954.

34. Findings of fact, conclusions of law and decree proposed by National and Certain-teed and filed August 16, 1954.

35. Memorandum of Newark and Ebsary, filed August

16, 1954, adopting and joining in National's proposed findings of fact, etc.

36. U. S. Gypsum's Objections and Suggestions with respect to petitioners' proposed findings of fact, conclusions of law and decree, filed September 17, 1954.

37. National's memorandum, filed October 11, 1954, in answer to U. S. Gypsum's Objections and Suggestions.

38. Memorandum of Newark and Ebsary filed October 21, 1954, in answer to U. S. Gypsum's Objections and Suggestions.

39. Motion filed October 18, 1954, by U. S. Gypsum petitioning for reconsideration and rehearing in respect to manifest errors of law and of fact embodied in the court's opinion of July 6, 1954.

[fol. 2031] 40. Points and authorities filed October 18, 1954, by U. S. Gypsum in support of its motion for reconsideration, etc.

41. Memorandum of National filed October 22, 1954, in opposition to U. S. Gypsum's motion for reconsideration and rehearing.

42. Order entered herein on December 9, 1954, denying without prejudice Part I of U. S. Gypsum's Objections and Suggestions with respect to petitioners' proposed findings of fact, conclusions of law and decree, filed herein on September 17, 1954, and the motion of U. S. Gypsum for reconsideration and for rehearing, filed herein on October 18, 1954.

43. Memorandum of the court, filed December 9, 1954, in support of the Court's order of December 9, denying without prejudice Part I of U. S. Gypsum's Objections and Suggestions, and its motion for reconsideration and rehearing.

44. Findings of fact and conclusion of law, and the order finding and adopting the same, entered by Judges Stone and Worley December 9, 1954, together with the dissent thereto of Judge Cole.

45. Decree entered by the majority of the court under date of December 9, 1954, together with dissent thereto of Judge William P. Cole, Jr.

46. Motion for new trial filed December 20, 1954, by U. S. Gypsum.

47. Order entered December 17, 1954, extending the time for filing U. S. Gypsum's points and authorities in support of its motion for new trial.

48. Points and authorities in support of U. S. Gypsum's motion for new trial, filed January 7, 1955.

49. Order of the court extending time within which to file statements in opposition to U. S. Gypsum's motion for new trial.

50. Statement of National and Certain-teed, filed February 28, 1955, in opposition to U. S. Gypsum's motion for new trial.

51. Reply of petitioners, Newark and Ebsary, filed February 28, 1955, in opposition to motion for new trial.

52. Motion of U. S. Gypsum, filed herein on March 10, 1955, for leave to file instanter its reply brief to statement of National and Certain-teed in opposition to its motion for new trial.

53. Reply brief of U. S. Gypsum, filed herein on March 10, 1955, to statement of National and Certain-teed in opposition to U. S. Gypsum's motion for new trial.

54. Order of this court entered April 26, 1955, granting leave to U. S. Gypsum to file its reply brief to petitioners' statement in opposition to its motion for new trial.

[fol. 2032] 55. Reporter's transcript of the proceedings of April 26, 1955, being transcript pages 1 to 187, both inclusive.

56. Order entered June 30, 1955, denying U. S. Gypsum's motion for new trial, together with dissent thereto filed by Judge William P. Cole, Jr.

57. Per Curiam memorandum, filed June 30, 1955, on denial of the motion for new trial.

58. Motion to correct transcripts of proceedings on June 9, 1953, January 12 and 13, 1954, and April 26, 1955, filed August 12, 1955.

59. Order correcting transcripts of proceedings on June 9, 1953, January 12 and 13, 1954, and April 26, 1955.

60. Request to certify and transmit original documents, filed August 19, 1955.

61. Order to certify and transmit original documents.

62. Petition for order staying decree of December 9, 1954, filed August 19, 1955.

63. Order staying decree of December 9, 1954, and fixing amount of supersedeas bond.

64. Supersedeas bond and order approving same.

65. Notice of appeal by U. S. Gypsum, filed August 26, 1955.

66. Proof of service of U. S. Gypsum's notice of appeal, filed August 26, 1955.

III

The following questions are presented by this appeal:

1. Whether the filing of suits in 1953 by U. S. Gypsum against certain co-defendant companies, solely to recover compensation for the actual use of its patents, constitutes a misuse or continuing misuse of its patents?

2. Whether, and to what extent, on the record in this case, including the issues joined by the 1953 petitions and answers thereto, there can be an adjudication, as a matter of law, on the issues of patent misuse and purge during all or any part of the February 1, 1948 to May 15, 1951 period, thus precluding U. S. Gypsum from presenting evidence with respect thereto?

3. Whether, and to what extent, effectuation of the basic purposes of the final decree of May 15, 1951, requires or [fol. 2033] authorizes the district court now to modify that decree to include a provision barring U. S. Gypsum from seeking compensation for the actual use of its patents by certain-co-defendant companies during the period commencing February 1, 1948 and ending May 15, 1951, the date of the final decree?

4. Whether there is any basis for the district court's modification of the final decree of May 15, 1951, to include a provision barring U. S. Gypsum from seeking compensation for the actual use of its patents by certain co-defendant companies from May 15, 1951, the date of the final decree, to the date of the filing of U. S. Gypsum's suit against them in 1953?

5. Whether, and to what extent, the final decree of May 15, 1951, expressly or by fair intendment, bars U. S. Gypsum from seeking reasonable compensation for the actual use of its patents by certain co-defendant companies during the

period commencing February 1, 1948 and ending May 15, 1951, the date of the final decree?

6. Whether, and to what extent, the district court had, or should have taken, jurisdiction to entertain the 1953 petitions of certain co-defendant companies to adjudicate, or to enjoin the adjudication of, private rights among the defendant companies?

Bruce Bromley, Cranston Spray, Robert C. Keck, Hugh Lynch, Jr., Attorneys for Defendant United States Gypsum Company.

Gravath, Swaine & Moore, 15 Broad Street, New York 5, New York.

MacLeish, Spray, Price & Underwood, 134 South LaSalle Street, Chicago 3, Illinois.

Macleay & Lynch, 1625 K Street, N. W., Washington 6, D. C.

[fol. 2034] [File endorsement omitted]

IN THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF COLUMBIA

[Title omitted]

CERTIFICATE OF SERVICE OF NOTICE OF APPEAL—Filed August 26, 1955

I hereby certify that I have, this 26th day of August, 1955, served copies of (a) Notice of Appeal to the Supreme Court of the United States, (b) Order Staying Decree of December 9, 1954, and Fixing Amount of Supersedeas Bond, (c) Order to Certify and Transmit Original Documents, and (d) Order Correcting Transcripts of Proceedings on June 9, 1953, January 12 and 13, 1954, and April 26, 1955, either personally or by regular mail, postage prepaid, upon the following persons:

Edward Knuff, Assistant to Attorney General, Anti-Trust Division, Department of Justice, Washington, D. C., Attorney for United States of America.

Hugh Lynch, Jr., 1625 K Street, NW, Washington,

D. C., Attorney for Sewell L. Avery and Oliver M. Knode.

Seymour Krieger, 514 Wyatt Building, Washington, D. C., Attorney for National Gypsum Company and Melvin H. Baker.

C. Roger Nelson, Barr Building, Washington, D. C., Attorney for Certain-teed Products Corporation.

Benjamin P. DeWitt, DeWitt, Pepper & Howell, 120 Broadway, New York 5, New York, Attorneys for Newark Plaster Company and Frederick Tomkins.

Joseph S. Rippey, 612 Powers Building, Rochester 14, New York, Attorney for Ebsary Gypsum Company.

Albert E. Hallett, 231 South La Salle Street, Chicago 4, Illinois, Attorney for The Celotex Corp.

Scott Crampton, 815 15th Street, NW, Washington, D. C., Attorney for Samuel M. Gloyd, doing business under the name of Texas Cement Plaster Co.

Hugh Lynch, Jr.

[fol. 2035] SUPREME COURT OF THE UNITED STATES

ORDER NOTING PROBABLE JURISDICTION—January 16, 1956

Appeal from the United States District Court for the District of Columbia.

The statement of jurisdiction in this case having been submitted and considered by the Court, probable jurisdiction is noted.

January 16, 1956

Mr. Justice Clark took no part in the consideration or decision of this question.